

AMBASE CORP  
Form 10-Q  
November 12, 2014  
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, 2014

or

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

Commission file number 1-7265

AMBASE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 95-2962743

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

ONE SOUTH OCEAN BOULEVARD, SUITE 301  
BOCA RATON, FLORIDA 33432

(Address of principal executive offices) (Zip Code)

(203) 532-2000

(Registrant's telephone number, including area code)

100 Putnam Green, 3<sup>rd</sup> Floor, Greenwich, Connecticut 06830  
(Former address of principal executive offices) (Zip Code)

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

YES  NO

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

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

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

YES  NO

At October 31, 2014, there were 40,737,751 shares outstanding of the registrant's common stock, \$0.01 par value per share.

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AmBase Corporation

Quarterly Report on Form 10-Q  
September 30, 2014

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## PART I - FINANCIAL INFORMATION

## Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## AMBASE CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations

(Unaudited)

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating expenses:				
Compensation and benefits	\$458	\$321	\$1,429	\$1,002
Professional and outside services	73	79	246	472
Property operating and maintenance	36	40	103	91
Depreciation	12	12	36	36
Insurance	41	11	66	30
Other operating	87	88	229	242
Total operating expenses	707	551	2,109	1,873
Operating income (loss)	(707 )	(551 )	(2,109 )	(1,873 )
Interest income	2	4	10	44
Realized gains (losses) on sales of investment securities	-	3	20	9
Unrealized gains (losses) on trading securities	-	(2 )	-	(2 )
Other income – federal tax gross up	-	-	-	-
Other income	-	-	-	-
Equity income (loss) – 111 West 57th Partners LLC	(610 )	(286 )	(1,983 )	(298 )
Income (loss) before income taxes	(1,315 )	(832 )	(4,062 )	(2,120 )
Income tax expense (benefit)	637	666	1,942	1,478
Net income (loss)	\$(1,952 )	\$(1,498 )	\$(6,004 )	\$(3,598 )
Net income (loss) per common share - basic	\$(0.05 )	\$(0.04 )	\$(0.15 )	\$(0.08 )
Net income (loss) per common share - assuming dilution	\$(0.05 )	\$(0.04 )	\$(0.15 )	\$(0.08 )
Weighted average common shares outstanding - basic	40,738	41,926	40,811	42,598
Weighted average common shares outstanding - assuming dilution	40,738	41,926	40,811	42,598

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

AMBASE CORPORATION AND SUBSIDIARIES  
Condensed Consolidated Balance Sheets  
(unaudited)

(in thousands, except per share data)

	September 30, 2014	December 31, 2013
Assets:		
Cash and cash equivalents	\$6,243	\$6,940
Investments securities - held to maturity	-	14,798
Investments securities - trading carried at fair value	-	-
Total investment securities	-	14,798
Real estate owned:		
Land	554	554
Buildings	1,900	1,900
Real estate owned, gross	2,454	2,454
Less: accumulated depreciation	666	630
Real estate owned, net	1,788	1,824
Indemnification asset - federal tax gross-up	18,429	18,429
Investment in 111 West 57 <sup>th</sup> Partners LLC	66,672	56,132
Other assets	403	240
Total assets	\$93,535	\$98,363
Liabilities and Stockholders' Equity:		
Liabilities:		
Accounts payable and accrued liabilities	\$2,444	\$2,545
Federal taxes payable	-	-
Uncertain tax position reserve	37,847	36,045
Other liabilities	-	-
Total liabilities	40,291	38,590
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock (\$0.01 par value, 200,000 authorized, 46,410 issued and 40,738 outstanding in 2014 and 41,176 outstanding in 2013)	464	464
Additional paid-in capital	548,304	548,304
Accumulated deficit	(490,356)	(484,352)
Treasury stock, at cost – 2014 - 5,672 shares; 2013 – 5,234 shares	(5,168 )	(4,643 )
Total stockholders' equity	53,244	59,773
Total liabilities and stockholders' equity	\$93,535	\$98,363

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

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

(in thousands)	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	\$(6,004 )	\$(3,598 )
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation	36	36
Realized (gains) losses on sales of investment securities	(20 )	(9 )
Provision for uncertain tax position reserve	1,802	1,286
Equity (income) loss - 111 West 57th Partners LLC	1,983	298
Unrealized (gains) losses on trading securities	-	2
Changes in operating assets and liabilities:		
Accrued interest receivable investment securities	-	4
Indemnification asset - federal tax gross-up	-	501
Other assets	(185 )	112
Accounts payable and accrued liabilities	(101 )	107
Federal taxes payable	-	(501 )
Other liabilities	-	-
Net cash provided (used) by operating activities	(2,489 )	(1,762 )
Cash flows from investing activities:		
Maturities of investment securities - held to maturity	27,793	197,148
Purchases of investment securities - held to maturity	(12,995)	(133,364)
Sales of investment securities – trading	956	9
Purchases of investment securities – trading	(936 )	(307 )
Equity investment - 111 West 57th Partners LLC	(12,523)	(57,250 )
Proceeds from (investment in) real estate limited partnership	22	-
Net cash provided (used) by investing activities	2,317	6,236
Cash flows from financing activities:		
Common stock repurchased for treasury	(525 )	(2,013 )
Stock options exercised	-	-
Net cash provided (used) by financing activities	(525 )	(2,013 )
Net change in cash and cash equivalents	(697 )	2,461
Cash and cash equivalents at beginning of period	6,940	3,907
Cash and cash equivalents at end of period	\$6,243	\$6,368
Supplemental cash flow disclosure:		
Income taxes paid	\$265	\$711

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

AMBASE CORPORATION AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 - Organization

The accompanying condensed consolidated financial statements of AmBase Corporation and subsidiaries ("AmBase" or the "Company") are unaudited and subject to year-end adjustments. All material intercompany transactions and balances have been eliminated. In the opinion of management, the interim financial statements reflect all adjustments, consisting only of normal recurring adjustments unless otherwise disclosed, necessary for a fair presentation of the Company's consolidated financial position, results of operations and cash flows. Results for interim periods are not necessarily indicative of results for the full year. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that it deems reasonable, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates and assumptions. The unaudited interim condensed consolidated financial statements presented herein are condensed and should be read in conjunction with the Company's consolidated financial statements filed in its Annual Report on Form 10-K for the year ended December 31, 2013.

The Company's assets currently consist primarily of cash and cash equivalents, an equity investment in a real estate development property, an indemnification asset, and real estate owned. The Company earns non-operating revenue consisting principally of investment earnings on investment securities and cash equivalents. As further discussed in Note 5, in June 2013, the Company, through a newly formed subsidiary, purchased an equity interest in a real estate development property through a joint venture agreement to purchase and develop real property located at 105 through 111 West 57<sup>th</sup> Street in New York, New York (the "111 West 57<sup>th</sup> Property"). The Company continues to evaluate a number of possible acquisitions and is engaged in the management of its assets and liabilities, including the contingent assets associated with its tax and legal proceedings. Discussions and negotiations are ongoing with respect to certain of these matters. From time to time, the Company and its subsidiaries may be named as a defendant in various lawsuits or proceedings. The Company intends to aggressively contest all litigation and contingencies, as well as pursue all sources for contributions to settlements. For a discussion of proceedings relating to the Supervisory Goodwill Settlement Agreement – Tax Gross-up see Note 9.

Note 2 – Summary of Significant Accounting Policies

New accounting pronouncements

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

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exist ("ASU- 2013-11"). This ASU requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss ("NOL") carryforward, a similar tax loss or a tax credit carryforward, except when: (1) an NOL carryforward, a similar tax loss or a tax credit carryforward is not available as of the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position or (2) the entity does not intend to use the deferred tax asset for this purpose (provided that the tax law permits a choice). If either of these conditions exists, an entity should present an unrecognized tax benefit in the financial statements as a liability and should not net the unrecognized tax benefit with a deferred tax asset. Additional recurring disclosures are not required because ASU-2013-11 does not affect the recognition, measurement or tabular

disclosure of uncertain tax positions.

The Company considered impact of the implementation of ASU-2013-11 in preparation of its condensed consolidated financial statements for the period ended September 30, 2014. The Company has not yet filed its 2014 Federal income tax return, however, based on the Company's current analyses along with consultation with tax advisors, the Company expects that it will elect to not carryback and thus only carryforward any federal tax loss, if and when generated, for tax year 2014. For tax year 2013, the Company elected not to carryback and thus only carryforward the Company's 2013 tax loss carryforward. Therefore, the Company does not believe ASU-2013-11 has an impact the Company's condensed consolidated financial statements for the period ended September 30, 2014.

### Note 3 - Investment Securities

Investment securities - held to maturity consist of the following:

(in thousands)	September 30, 2014			December 31, 2013		
	Carrying Value	Amortized Cost	Fair Value	Carrying Value	Amortized Cost	Fair Value
Held to Maturity:						
U.S. Treasury Bills	\$ -	\$ -	\$ -	\$ 14,798	\$ 14,798	\$ 14,798
	\$ -	\$ -	\$ -	\$ 14,798	\$ 14,798	\$ 14,798

Investment securities - trading consist of the following:

(in thousands)	September 30, 2014			December 31, 2013		
	Carrying Value	Amortized Cost	Fair Value	Carrying Value	Amortized Cost	Fair Value
Trading:						
Equity Securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

(in thousands)	September 30, 2014	December 31, 2013
Held to Maturity:		
Gross unrealized gains (losses)	\$ -	\$ -

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

(in thousands)	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
	2014	2013	2014	2013
Net sale proceeds	\$ -	\$ 3	\$ 956	\$ 9
Cost basis	-	-	936	-



Realized gains (losses) \$ - \$ 3 \$ 20 \$ 9

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

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2013	2014	2013
(in thousands)				
Cost basis	\$ -	\$ 307	\$ -	\$ 307
Current value	-	305	-	305
Unrealized gains (losses)	\$ -	\$ (2 )	\$ -	\$ (2 )

#### Note 4 –Real Estate Owned

Real estate owned consists of a commercial office building in Greenwich, Connecticut that is managed and operated by the Company. The building is approximately 14,500 square feet; with approximately 3,500 square feet utilized by the Company for its offices; the remaining space is currently unoccupied and available for lease. Depreciation expense for the building is calculated on a straight-line basis over 39 years.

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

The Company performs impairment tests on a regular basis and/or if events or circumstances indicate that the property's carrying value may not be recoverable. Based on the Company's analysis, the Company believes the carrying value of the real estate owned as of September 30, 2014, has not been impaired and, therefore, the carrying value of the asset is fully recoverable by the Company. The building is carried at cost, net of accumulated depreciation.

#### Note 5 – Investment in 111 West 57<sup>th</sup> Partners LLC

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

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

In March 2014, the Company entered into an amended and restated operating agreement for Investment LLC (the "Amended and Restated Investment Operating Agreement") to grant a 10% subordinated participation interest in the Investment LLC to Mr. Richard A. Bianco (the Company's current Chairman, President and Chief Executive Officer) ("Mr. R. A. Bianco"), as contingent future incentive compensation for Mr. R. A. Bianco's past, current and anticipated ongoing role to develop and commercialize the Company's equity investment in the 111 West 57<sup>th</sup> Property. Pursuant to the terms of the Amended and Restated Investment Operating Agreement, Mr. R.A. Bianco has no voting rights with respect to his interest in Investment LLC, and his entitlement to receive 10% of the distributions from Investment LLC is subject to the Company first receiving distributions equal to 150% of the Company's initial aggregate \$57,250,000 investment in Investment LLC and the Joint Venture, plus any additional investments by the Company if any, and only with respect to any distributions thereafter.

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

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

In March 2014, the Company contributed additional capital of \$1,086,000 to the Joint Venture for deposit into an inclusionary air rights reserve pursuant to the mortgage agreement. In June 2014, the Company contributed additional capital of \$5,595,000 to the Joint Venture. Additionally, in July 2014, the Company contributed additional capital of \$5,842,000 to the Joint Venture. Additional capital contributions have been made on a pro-rata basis, based on the Company's investment interest.

The Company has recorded the investment in 111 West 57<sup>th</sup> Partners utilizing the equity method of accounting, as pursuant to the various agreements the Company has significant influence, but does not have control, as defined under GAAP. Accordingly, the results of operations of 111 West 57<sup>th</sup> Partners are included in equity income (loss) in the Company's condensed consolidated statements of operations. As of September 30, 2014, the Company's carrying amount of its investment in 111 West 57<sup>th</sup> Partners as noted in the Company's condensed consolidated balance sheet, is greater than the Company's equity in the underlying net assets of 111 West 57<sup>th</sup> Partners by \$867,000, categorized as goodwill, due to a difference resulting from the reduction in equity for syndication fees paid relating to 111 West

57<sup>th</sup> Partners. The Company reviews its investments and ownership interests recorded under the equity method for impairment on a regular basis and/or if events or changes in circumstances indicate that a loss in the value of its investment may be other than temporary. There was no impairment on the Company's equity method investment for the nine months ended September 30, 2014.

The following tables present summarized financial information for the Company's equity method investment in 111 West 57<sup>th</sup> Partners. The amounts shown represent 100% of the financial position and results of operations of 111 West 57<sup>th</sup> Partners for the dates indicated below.

(in thousands)

	September 30, 2014	December 31, 2013
Assets:		
Real estate held for development, net	\$ 308,823	\$ 263,312
Escrow deposits	14,930	43,100
Other assets	21,053	18,062
Total assets	\$ 344,806	\$ 324,474
Liabilities:		
Mortgage payable	\$ 230,000	\$ 230,000
Other liabilities	5,621	2,767
Total liabilities	235,621	232,767
Equity:		
Total equity	109,185	91,707
Total liabilities and equity	\$ 344,806	\$ 324,474

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	Three Months Ended September 30, 2014	June 28, 2013 (date of investment) through September 30, 2013	Nine Months Ended September 30, 2014	June 28, 2013 (date of investment) through September 30, 2013
Rental income	\$ 54	\$ 584	\$ 337	\$ 599
Expenses	1,061	1,059	3,621	1,094
Net income (loss)	\$ (1,007 )	\$ (475 )	\$ (3,284 )	\$ (495 )

Note 6 - Savings Plan

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

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

(\$ in thousands)	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	September 30, 2013	September 30, 2013	September 30, 2013	September 30, 2013
Company matching contributions	\$-	\$ 6	\$29	\$ 25
Employer match %	33%	33 %	33 %	33 %

Note 7 – Common Stock Repurchase Plan

In January 2002, and reaffirmed by the Company's Board of Directors in June 2013, the Company announced a common stock repurchase plan (the "Repurchase Plan") which allows for the repurchase by the Company of its common stock in the open market.

The Repurchase Plan is conditioned upon favorable business conditions and acceptable prices for the common stock. Purchases under the Repurchase Plan may be made, from time to time, in the open market, through block trades or otherwise. Depending on market conditions and other factors, purchases may be commenced or suspended any time or from time to time without prior notice. Pursuant to the Repurchase Plan the Company repurchased shares of common stock from unaffiliated parties at various dates at market prices at their time of purchase, including broker commissions.

Information relating to the Repurchase Plan is as follows:

(in thousands)	Nine Months Ended

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	September 30, 2014
Common shares repurchased to treasury during period	438
Aggregate cost of shares repurchased during period	\$ 525

(in thousands)	September 30, 2014
Total number of common shares authorized for repurchase	10,000
Total number of common shares repurchased to date	6,226
Total number of shares that may yet be repurchased	3,774

Note 8 – Incentive Plans

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

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

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

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, and given the substantial changes in the price per share of the Company's Common Stock, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. There were no stock option grants during the nine months ended September 30, 2014 and 2013. No stock options were outstanding at September 30, 2014 or December 31, 2013.

Common stock reserved for issuance under the Company's 1993 Stock Incentive Plan and other non-related employee benefit plans is as follows:

(in thousands)	September 30, 2014
1993 Stock Incentive Plan	4,320
Other employee benefit plan	100
Total common shares reserved for issuance	4,420

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## Note 9 - Income Taxes

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

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

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Federal – current	\$250	\$237	\$731	\$509
State – current	387	429	1,211	969
Total current	637	666	1,942	1,478
Federal – deferred	(460)	(291)	(1,422)	(742)
State - deferred	-	-	-	-
Change in valuation allowance	460	291	1,422	742
Total deferred	-	-	-	-
Income tax expense (benefit)	\$637	\$666	\$1,942	\$1,478

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

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Income (loss) before income taxes	\$(1,315)	\$(832)	\$(4,062)	\$(2,120)
Tax expense (benefit):				
Tax at statutory federal rate	\$(460)	\$(291)	\$(1,422)	\$(742)
State income taxes	30	64	140	192
Federal interest	250	237	731	509
State interest	357	365	1,071	777
Permanent items	-	-	-	-
Other	-	-	-	-
Change in valuation allowance	460	291	1,422	742
Income tax expense (benefit)	\$637	\$666	\$1,942	\$1,478

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

Three Months Ended September 30,		Nine Months Ended September 30,	
2014	2013	2014	2013

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Tax at statutory federal rate	35.0%	35.0%	35.0%	35.0%
State income taxes	(2.3)%	(7.7)%	(3.5)%	(9.0)%
Federal interest	(19.0)%	(28.4)%	(18.0)%	(24.0)%
State interest	(27.2)%	(43.9)%	(26.3)%	(36.7)%
Permanent differences, tax credits and other adjustments	-	-	-	-
Other	-	-	-	-
Change in valuation allowance	(35.0)%	(35.0)%	(35.0)%	(35.0)%
Effective income tax rate	(48.5)%	(80.0)%	(47.8)%	(69.7)%

The Company's federal income tax returns for the years subsequent to 1992 have not been examined by the Internal Revenue Service ("IRS") or state authorities, except for tax year 2007, which was examined by the IRS and has been concluded and tax year 2012 as noted herein. The Company has received notification from the IRS that the Company's federal income tax return for tax year 2012 was selected for examination, which examination is currently ongoing. The Company has not been notified of any other potential tax audits by any state or local tax authorities. As such, the Company believes the statutes of limitations for the assessment of additional federal and state tax liabilities are generally closed for tax years prior to 2011. Interest and/or penalties related to underpayments of income taxes, or if applicable on uncertain tax positions, would be included as a component of income tax expense (benefit). The accompanying financial statements do not include any amounts for penalties.

State income tax amounts for the nine months ended September 30, 2014 and September 30, 2013, include accrued state interest expense for uncertain tax positions and a provision for a minimum tax on capital imposed by the state jurisdictions.

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

The Carteret Tax Basis and federal NOL carryforward deductions utilized as part of the Company's 2012 federal income tax return as filed were as follows:

(in thousands)

Carteret Tax Basis	\$ 152,000
Federal NOL carryforwards utilized	\$ 25,000

Pursuant to the accounting principles with regard to recognition of uncertain tax positions, (ASC 740-10, Accounting for Income Taxes), as detailed herein, the Company was required to record an aggregate tax reserve to reflect the net tax effect plus accrued interest for potential tax audit and uncertainty that the Carteret Worthless Stock Deduction, (uncertain tax position), could be disallowed in whole or in part by the tax authorities. The Company believes that if any additional federal tax is owed as a result of any adjustments, these potential amounts would be reimbursable to the Company pursuant to the tax gross-up provision of the Settlement Agreement, as further described below. As a result the Company recorded an indemnification asset, as noted herein, to reflect the net amount (excluding accrued interest) of the federal uncertain tax position reserve recognized. A portion of the uncertain tax position reserve as of September 30, 2014 and December 31, 2013, is attributable to certain state taxes on the Settlement Amount which are



not reimbursable to the Company as part of the Settlement Agreement.

In connection with the uncertain tax positions as noted herein, the Company accrued federal and state interest expense for the potential underpayment of 2012 taxes. The interest expense is included as a component of income tax expense (benefit) in the condensed consolidated statement of operations and as a component of the uncertain tax position reserve in the condensed consolidated balance sheets. The calculation of the net federal uncertain tax position reserve amount factors in the assumed use of the Company's federal NOL carryforwards and federal Alternative Minimum Tax ("AMT") Tax Credits which would have been available as of 2012.

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A roll forward of the uncertain tax positions reserve, excluding accrued federal and state interest is as follows:

(in thousands)	September 30, 2014	December 31, 2013
Uncertain tax position reserve excluding accrued interest, at beginning of period	\$ 34,157	\$ 34,157
Federal uncertain tax position reserve excluding accrued interest	-	-
State uncertain tax position reserve excluding accrued interest	-	-
Uncertain tax position reserve excluding accrued interest, at end of period	\$ 34,157	\$ 34,157

The Company's uncertain tax positions tax reserve, including accrued interest is as follows:

(in thousands)	September 30, 2014	December 31, 2013
Federal uncertain tax positions reserve, including accrued federal interest	\$ 19,910	\$ 19,179
State uncertain tax positions reserve, including accrued state interest	17,937	16,866
Total uncertain tax positions reserve, including accrued federal and state interest	\$ 37,847	\$ 36,045

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

(in thousands)	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Federal	\$250	\$ 237	\$731	\$ 509

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State jurisdictions	357	365	1,071	777
Interest expense - taxes	\$607	\$ 602	\$1,802	\$ 1,286

The utilization of certain carryforwards and carrybacks is subject to limitations under U.S. federal income tax laws. The Company has not yet filed its 2014 Federal income tax return, however, based on the Company's current analyses along with consultation with tax advisors, the Company expects that it will elect to not carryback and thus only carryforward any federal tax loss, if and when generated, for tax year 2014. For tax year 2013, the Company elected not to carryback and thus only carryforward the Company's 2013 tax loss carryforward. Based on the Company's federal tax returns filed or to be filed, the Company estimates it has federal NOL carryforwards available to reduce future federal taxable income, which would expire if unused, as indicated below.

The federal NOL carryforwards as of September 30, 2014 are as follows:

Tax Year Originating	Tax Year Expiring	Amount
2013	2033	\$3,700,000
2014	2034	4,200,000
		\$7,900,000

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Based on the Company's state tax returns filed or to be filed, the Company estimates it has state NOL carryforwards to reduce future state taxable income, which would expire if unused, as indicated below.

The state NOL carryforwards as of September 30, 2014 are as follows:

Tax Year Originating	Tax Year Expiring	Amount
2011	2031	\$1,900,000
2013	2033	2,700,000
2014	2034	4,000,000
		\$8,600,000

The Company has calculated a net deferred tax asset arising primarily from NOL carryforwards as follows:

	September 30, 2014	December 31, 2013
Net deferred tax asset	\$2,800,000	\$1,400,000
Valuation allowance	(2,800,000)	(1,400,000)
Net deferred tax asset recognized	\$-	\$-

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. It is unclear whether any significant changes in unrecognized income tax benefits are currently expected to occur over the next year. The net deferred tax asset amounts noted above do not include the NOL's utilized in connection with the calculation of the uncertain tax position reserve as noted herein.

As part of the October 2012 Settlement Agreement in the Company's Supervisory Goodwill legal proceedings, the Company is entitled to a tax gross-up in an amount to be determined if and when any federal taxes should be imposed on the Settlement Amount. Based on the Company's 2012 federal income tax return as filed (subject to IRS audit adjustment/review), in March 2013, the Company paid \$500,729 of federal income taxes attributable to AMT rate calculations (the "2012 Federal Income Tax Paid"). On May 3, 2013, the Company filed a Rule 60(b) Motion with the Court of Federal Claims seeking a tax gross-up from the United States for the 2012 Federal Income Tax Paid, plus applicable tax consequences relative to the reimbursement of this amount. Subsequently, Senior Judge Smith held oral argument and after the hearing filed an order directing the United States to pay AmBase reimbursement for 2012 Federal Income Taxes Paid as provided for in the Settlement Agreement, which amount was received by the Company in September 2013. On August 6, 2013, Senior Judge Smith issued an opinion which addressed the relief sought by AmBase. In summary, the Court held that the Settlement Agreement is a contract and that it entitles the Company to receive both "(1) the amount of the tax consequences resulting from taxation of the damages award plus (2) the tax consequences of receiving the first component." But the Court did not award additional damages for the second component of the damages at that time given the remaining uncertainty surrounding the ultimate tax treatment of the settlement proceeds and the gross-up, as well as uncertainty relating to the Company's future income. The Court indicated that either the Company or the government is entitled to seek further relief "if, and when, the facts justify." The Court also stated that the "plain meaning of the agreement precludes state taxes from being included in any possible future gross-up calculations." Additionally, the Court indicated that AmBase "would first have to generate income" before it could attempt to recover compensation for the use of its NOLs to shield the settlement proceeds from federal taxation.

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The Company's indemnification asset which reflects the potential amounts reimbursable pursuant to the tax gross-up provision of the Settlement Agreement for the federal uncertain tax position reserve recognized, is as follows:

	September	December
(in thousands)	30, 2014	31, 2013
Indemnification asset – federal tax gross-up	\$ 18,429	\$ 18,429

As the IRS and/or state tax authorities have not examined the Company's 2012 income tax return as filed, the Company cannot predict the amount of federal and/or state taxes ultimately imposed by the IRS and/or state tax authorities or payable by the Company; and therefore, the Company cannot predict the final amount of any federal tax gross-up ultimately received by the Company pursuant to the Settlement Agreement.

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

The Company has made numerous requests to the RTC/FDIC for tax information pertaining to Carteret and the resulting successor institution, Carteret Federal Savings Bank ("Carteret FSB"); however, that information has not been received. Because the Carteret and Carteret FSB tax information has not been received, the Company is unable to determine with certainty the amount of or the years in which any NOL's may ultimately be generated; if the NOL carryforwards/carrybacks will be utilized in prior federal income tax return years; or the final expiration dates of any of the NOL carryforwards/carrybacks ultimately generated relating to the Election Decision noted herein. Based on information received, the Company calculated the Carteret Tax Basis as of December 1992.

If the Carteret Worthless Stock Deduction is denied by the IRS, the Carteret Tax Basis may be deemed a capital loss, or converted into NOL carryforwards/carrybacks as additional tax losses are incurred by Carteret/Carteret FSB and may be carried back or carried forward to other tax years; may be utilized in other tax years; or could begin to expire no earlier than the 2008 tax year based upon the year any NOL's are ultimately generated. The Company can give no assurances with regard to the final amount or expiration of NOL carryforwards/carrybacks ultimately generated, if any, from the Company's Carteret Tax Basis. NOL's generated from the Company's Carteret Tax Basis are in addition to the NOL carryforwards/carrybacks generated based on the Company's federal income tax returns as previously filed from 1993 forward, as described herein.

The FDIC has previously filed a federal income tax return for Carteret FSB for 1995 (as well as other years), which indicates that Carteret FSB allegedly could owe a 1995 federal income tax liability of \$32 million, which including interest and penalty thereon, is alleged to be in excess of \$139 million. The FDIC has stated to the United States Court of Federal Claims ("Court of Claims") that the tax amounts are only estimates and are highly contingent. However, it is possible that the IRS may try to collect the alleged Carteret FSB federal income taxes from the Carteret FSB receivership. The Company believes the Carteret FSB federal income tax returns filed by the FDIC were improperly filed and are neither accurate nor valid. Based on the information received to date, if the correct Carteret FSB federal income tax results were included with the Company's originally filed federal income tax returns, the Company, believes that no additional material federal income tax would be owed by the Company, although this

cannot be assured because a contrary result is possible, given the uncertainty with various legal and factual assumptions underlying the Company's beliefs. This assessment included among other items a review of the Carteret FSB federal income tax returns as prepared by the FDIC and the correction of errors originally reported therein, the proper application of federal NOL carryforwards and carrybacks, and the adherence to statute of limitation provisions contained in the Internal Revenue Code, as amended.

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

#### Note 10 - Legal Proceedings

The information contained in Item 8 - Note 11 in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, 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.

#### Note 11 - Subsequent Events

The Company has performed a review of events subsequent to the balance sheet dated September 30, 2014, through the report issuance date.

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

### FORWARD LOOKING STATEMENTS

This quarterly report, together with other statements and information publicly disseminated by the Company may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the "Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or make oral statements that constitute forward looking statements. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted or quantified. The forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, anticipated market performance, anticipated litigation results or the timing of pending litigation, and similar matters. When used in this Quarterly Report, the words "estimates," "expects," "anticipates," "believes," "plans," "intends" and variations of such words and similar expressions are intended to identify forward-looking statements that involve risks and uncertainties. The Company cautions readers that a variety of factors could cause the Company's actual results to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. These risks and uncertainties, many of which are beyond the Company's control, include, but are not limited to those set forth in "Item 1A, Risk Factors" and elsewhere in the Company's Annual Report on Form 10-K and in the Company's other public filings with the Securities and Exchange Commission including, but not limited to: (i) transaction volume in the securities markets; (ii) the volatility of the securities markets; (iii) fluctuations in interest rates; (iv) risks inherent in the real estate business, including, but not limited to, insurance risks, tenant defaults, risks

associated with real estate development activities, changes in occupancy rates or real estate values; (v) changes in regulatory requirements which could affect the cost of doing business; (vi) general economic conditions; (vii) changes in the rate of inflation and the related impact on the securities markets; (viii) changes in federal and state tax laws; (ix) certain assumptions regarding the outcome of pending legal and/or tax matters, based in whole or in part upon consultation with outside advisors, and (x) risks arising from unfavorable decisions in the Company's current material tax and legal proceedings, or unfavorable decisions in other Supervisory Goodwill cases. These are not the only risks that we face. There may be additional risks that we do not presently know of or that we currently believe are immaterial which could also impair our business and financial position.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations, which follows, should be read in conjunction with the consolidated financial statements and related notes, which are contained in Part I - Item 1, herein and in Part II – Item 8 in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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## BUSINESS OVERVIEW

AmBase Corporation (the "Company") is a holding company which has an equity investment in a real estate development property to develop real property in New York, New York and, through a wholly-owned subsidiary, owns a commercial office building in Greenwich, Connecticut.

The Company's assets currently consist primarily of cash and cash equivalents, an equity investment in a real estate development property, an indemnification asset, and real estate owned. The Company earns non-operating revenue consisting principally of investment earnings on investment securities and cash equivalents. As further discussed in Part I – Item 1- Note 5 to the Company's condensed consolidated financial statements, in June 2013, the Company, through a newly formed subsidiary, purchased an equity interest in a real estate development property through a joint venture agreement to purchase and develop real property located at 105 through 111 West 57<sup>th</sup> Street in New York, New York (the "111 West 57<sup>th</sup> Property"). The Company continues to evaluate a number of possible acquisitions and is engaged in the management of its assets and liabilities, including the contingent assets associated with its legal claims. Discussions and negotiations are ongoing with respect to certain of these matters. From time to time, the Company and its subsidiaries may be named as a defendant in various lawsuits or proceedings. The Company intends to aggressively contest all litigation and contingencies, as well as pursue all sources for contributions to settlements. For a discussion of lawsuits and proceedings, including a discussion of the Supervisory Goodwill Settlement Agreement – Tax Gross-up see Part I - Item 1 – Note 9 to the Company's condensed consolidated financial statements.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's assets at September 30, 2014, aggregated \$93,535,000, consisting principally of cash and cash equivalents of \$6,243,000, an equity investment in a real estate development property of \$66,672,000, an indemnification asset - federal tax gross-up of \$18,429,000 and real estate owned, net of \$1,788,000. At September 30, 2014, the Company's liabilities, including an uncertain tax position reserve, aggregated \$40,291,000. Total stockholders' equity was \$53,244,000.

For the nine months ended September 30, 2014, cash of \$2,489,000 was used by operations for the payment of operating expenses and prior year accruals. The cash needs of the Company for the nine months ended September 30, 2014, were principally satisfied by the Company's financial resources and, to a lesser extent, the receipt of investment earnings on investment securities and cash equivalents. In addition, cash flows used by investment activities for the nine months ended September 30, 2014, includes \$12,523,000 of additional equity investments in 111 West 57<sup>th</sup> Partners LLC.

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

Pursuant to the accounting principles with regard to recognition of uncertain tax positions, (ASC 740-10, Accounting for Income Taxes), the Company was required to record an aggregate tax reserve of approximately \$37,847,000; (\$19.9 million for federal) as of September 30, 2014, and \$36,045,000 (\$19.2 million for federal) as of December 31, 2013, to reflect the net tax effect plus accrued interest for potential tax audit and uncertainty that the \$152 million Carteret worthless stock tax deduction (uncertain tax position), could be disallowed in whole or in part by the tax authorities. The Company believes that if any additional federal tax is owed as a result of any adjustments, these potential amounts would be reimbursable to the Company pursuant to the tax gross-up provision of the Settlement Agreement. As a result, the Company recorded an indemnification asset of \$18.4 million to reflect the net amount (excluding accrued interest) of the federal uncertain tax position reserve recognized. The calculation of the net federal uncertain tax position reserve amount factors in the assumed use of the Company's remaining NOL carryforwards as



of 2012 totaled \$24.1 million and use of the Company's remaining AMT Tax Credits as of 2012 totaled \$21.0 million. A portion of the uncertain tax position reserve as of September 30, 2014 and December 31, 2013, is attributable to certain state taxes on the Settlement Amount which are not reimbursable to the Company as part of the Settlement Agreement. The Company has received notification from the IRS that the Company's federal income tax return for tax year 2012 was selected for examination, which examination is currently ongoing. For additional information see Part I – Item 1 – Note 9 to the Company's condensed consolidated financial statements for a discussion of Income Taxes and the Supervisory Goodwill Settlement Agreement – Tax Gross-up.

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For the nine months ended September 30, 2013, cash of \$1,762,000 was used by operations, due to the payment of operating expenses and prior year accruals. The cash needs of the Company for the nine months ended September 30, 2013, were principally satisfied by the Company's financial resources and to a lesser extent the receipt of investment earnings received on investment securities and cash equivalents.

Real estate owned consists of a commercial office building in Greenwich, Connecticut which the Company owns and manages. The building is approximately 14,500 square feet; approximately 3,500 square feet is utilized by the Company for its executive offices; the remaining space is currently unoccupied and available for lease. Although the portion of the building not being utilized by the Company is currently unoccupied and available for lease, based on the Company's analysis, including but not limited to current market rents in the area, leasing values, and comparable property sales, the Company believes the property's fair value exceeds the property's current carrying value. Therefore, the Company believes the carrying value of the property as of September 30, 2014, has not been impaired.

Accounts payable and accrued liabilities as of September 30, 2014, decreased from December 31, 2013, principally as a result of the payment of prior year accruals. Included in accounts payable and accrued liabilities as of September 30, 2014 and December 31, 2013 is an incentive compensation accrual to Mr. Bianco of \$1.9 million which could be payable to Mr. Bianco pursuant to his 2007 Employment Agreement related to the tax gross-up indemnification asset discussed herein.

There are no other material commitments for capital expenditures as of September 30, 2014. Inflation has had no material impact on the business and operations of the Company.

#### Results of Operations for the Three Months and Nine Months Ended September 30, 2014 vs. the Three Months and Nine Months Ended September 30, 2013

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

The Company recorded a net loss of \$1,952,000 or \$0.05 per share and \$6,004,000 or \$0.15 per share in the three months and nine months ended September 30, 2014, respectively, compared to a net loss of \$1,498,000 or \$0.04 per share and \$3,598,000 or \$0.08 per share in the respective 2013 periods.

Compensation and benefits increased to \$458,000 and \$1,429,000 in the three months and nine months ended September 30, 2014, respectively, compared to \$321,000 and \$1,002,000 in the respective 2013 periods. The increase in the 2014 three month and nine month periods is due to an increase in incentive compensation accruals in the 2014 periods versus the comparable 2013 periods. No stock based compensation expense was recorded in the nine months ended September 30, 2014 or September 30, 2013.

Professional and outside services decreased to \$73,000 and \$246,000 in the three months and nine months ended September 30, 2014, respectively, compared to \$79,000 and \$472,000 in the respective 2013 periods. The decrease in the 2014 periods as compared to the 2013 periods is principally the result of a lower level of legal and professional fees due to tax and legal fees relating to the Supervisory Goodwill Settlement Agreement tax gross-up matters incurred in the 2013 periods versus minimal related expenses in the 2014 periods.

Property operating and maintenance expenses were \$36,000 and \$103,000 for the three months and nine months ended September 30, 2014, respectively, compared to \$40,000 and \$91,000 in the respective 2013 periods. The increased expenses in the nine months ended September 30, 2014 compared to the respective 2013 period is due to an increase in the overall level of repairs and maintenance expenses.

Insurance expenses increased to \$41,000 and \$66,000 in the three months and nine months ended September 30, 2014, respectively, compared to \$11,000 and \$30,000 in the respective 2013 periods. The increase is generally due to an increase in insurance coverage levels and insurance premium costs.

Other operating expenses increased to \$87,000 and \$229,000 in the three months and nine months ended September 30, 2014, respectively, compared with \$88,000 and \$242,000 in the respective 2013 periods, due to a general lower level of related expenses.

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Interest income in the three months and nine months ended September 30, 2014, decreased to \$2,000 and \$10,000, respectively, from \$4,000 and \$44,000 in the respective 2013 periods. The decreased interest income is principally due to a lower average level of cash and cash equivalents and investments on hand in the 2014 periods compared with the 2013 periods due to the Company's investment(s) in the 111 West 57<sup>th</sup> Street Property in June 2013 and during 2014.

Realized gains on sales of investment securities were \$0 and \$20,000 for the three months and nine months ended September 30, 2014, respectively, and \$3,000 and \$9,000 for the three months and nine months ended September 30, 2013, respectively. The gains are the result of the realization of gains on sales of securities held for trading due to market appreciation.

Equity income (loss) - 111 West 57<sup>th</sup> Partners of \$610,000 and \$1,983,000 for the three months and nine months ended September 30, 2014, respectively, represents the Company's share of the 111 West 57<sup>th</sup> Partners' loss. Equity income (loss) - 111 West 57<sup>th</sup> Partners of \$286,000 and \$298,000 in periods ended September 30, 2013, represents the Company's share of the 111 West 57<sup>th</sup> Partners' loss for the three months ended September 30, 2013 and for the year-to-date period from June 28, 2013 (date of investment) through September 30, 2013, respectively. The increase in the loss in the 2014 year to date period is due to increased expenses in the 2014 period due to activity for the full 2014 nine month period indicated versus activity in 2013 from June 28, 2013 (date of investment).

The Company recognized income tax provisions of \$637,000 and \$1,942,000 for the three months and nine months ended September 30, 2014, respectively, as compared with income tax provisions of \$666,000 and \$1,478,000 for the three months and nine months ended September 30, 2013, respectively. The income tax provisions for the 2014 and 2013 respective periods are attributable to a provision for a minimum tax on capital imposed by the state jurisdictions and include a provision for interest expense on uncertain tax provisions as noted below. Income taxes applicable to operating income (loss) are generally determined by applying the estimated effective annual income tax rates to pretax income (loss) for the year-to-date interim period. Income taxes applicable to unusual or infrequently occurring items are provided in the period in which such items occur.

In connection with the uncertain tax positions as noted herein the Company accrued federal and state interest expense for potential underpayment of taxes for tax year 2012 of \$607,000 and \$1,802,000 for the three months and nine months ended September 30, 2014, respectively, and \$602,000 and \$1,286,000 for the three months and nine months ended September 30, 2013, respectively. The interest expense is included as a component of income tax expense (benefit) in the condensed consolidated statement of operations and as a component of the uncertain tax position reserve in the condensed consolidated balance sheet.

In March 2013, the Company paid a federal alternative minimum tax liability of \$501,000 based on the Company's 2012 federal income tax return as filed. A reconciliation between income taxes computed at the statutory federal rate and the provision for income taxes is included in Part I - Item 1 - Note 9 to the Company's condensed consolidated financial statements.

### 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, 2014. 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)

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promulgated under the Exchange Act) are effective to ensure that the information required to be disclosed by us in the reports we file under the Exchange Act is recorded, processed, summarized and reported with adequate timeliness.

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

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## PART II - OTHER INFORMATION

## Item 1. LEGAL PROCEEDINGS

There have been no material developments in the legal proceedings previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 in response to Part I - Item 3 of Form 10-K.

## 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, 2013 in response to Item 1A of Part I of Form 10-K.

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

- a. Not applicable
- b. Not applicable
- c. Repurchases of Equity Securities

## Common Stock Repurchase Plan

In January 2002, and reaffirmed by the Company's Board of Directors in June 2013, the Company announced a common stock repurchase plan (the "Repurchase Plan") which allows for the repurchase by the Company of 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.

From	To	Total Number of Shares Purchased	Average Price Paid per Share (including Broker Commissions)	Total Number Shares Purchased as Part of Publicly Announced Plans	Maximum Number Shares that may yet be Purchased under the Plan
-	Initial Balance	-	-	-	10,000,000
Prior to	January 1, 2014	-	-	5,787,870	4,212,130
January 1, 2014	January 31, 2014	231,200	1.20	6,019,070	3,980,930
February 1, 2014	February 28, 2014	64,190	1.18	6,083,260	3,916,740
March 1, 2014	March 31, 2014	79,228	1.18	6,162,488	3,837,512
April 1, 2014	April 30, 2014	53,180	1.25	6,215,668	3,784,332
May 1, 2014	May 31, 2014	10,100	1.28	6,225,768	3,774,232
June 1, 2014	June 30, 2014	-	-	6,225,768	3,774,232
July 1, 2014	July 31, 2014	-	-	6,225,768	3,774,232
August 1, 2014	August 31, 2014	-	-	6,225,768	3,774,232

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September 1, 2014	September 30, 2014	-	-	6,225,768	3,774,232
Total		437,898			

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Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

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

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

32.1 Section 1350 Certification of Chief Executive Officer

32.2 Section 1350 Certification of Chief Financial Officer

101.1 The following financial statements from AmBase Corporation's quarterly report on Form 10-Q for the quarter ended September 30, 2014 formatted in XBRL: (i) Condensed Consolidated Statement of Operations (unaudited); (ii) Condensed Consolidated Balance Sheets (unaudited); (iii) Condensed Consolidated Statements of Cash Flow (unaudited); and (iv) Notes to Condensed Consolidated Financial Statements (unaudited).

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SIGNATURES

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

AMBASE CORPORATION

/s/ John Ferrara

JOHN FERRARA

Vice President, Chief Financial Officer and Controller

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

Date: November 12, 2014