

AMBASE CORP  
Form 10-K/A  
January 04, 2013  
UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K/A  
(Amendment No. 1)  
FOR ANNUAL AND TRANSITION REPORTS PURSUANT  
TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
 OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR  
 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-07265

AMBASE CORPORATION  
(Exact name of registrant as specified in its charter)

DELAWARE 95-2962743  
(State of incorporation) (I.R.S. Employer Identification No.)

100 Putnam Green, 3rd Floor, Greenwich, CT 06830-6027  
(Address of principal executive offices)

Registrant's telephone number, including area code: (203) 532-2000

Securities registered pursuant to Section 12(g) of the Act:

Title of each class  
Common Stock (\$0.01 par value)

Rights to Purchase Common Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes No

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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, and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K.

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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 the definitions of "accelerated filer", "large 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 February 28, 2012, there were 43,075,410 shares of registrant's Common Stock outstanding. At June 30, 2011, the aggregate market value of registrant's voting securities (consisting of its Common Stock) held by nonaffiliates of the registrant, based on the average bid and asking price on such date of the Common Stock of \$0.25 per share was approximately \$10.8 million. The Common Stock constitutes registrant's only outstanding class of security.

Portions of the registrant's definitive Proxy Statement for its 2012 Annual Meeting of Stockholders, which Proxy Statement the registrant intends to file with the Securities and Exchange Commission not later than 120 days after the close of its fiscal year, is incorporated by reference with respect to certain information contained therein, in Part III of this Annual Report.

The Exhibit Index is located in Part IV, Item 15, Page 38.

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EXPLANATORY NOTE

We are filing this Amendment No. 1 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (the "Form 10-K") to correct the signature line of the report of Marcum LLP set forth on page 11 of the Form 10-K (the "Report"). The Report had been signed by Marcum LLP, but the conformed signature line was inadvertently omitted from the Report when the Form 10-K was filed.

This Amendment No. 1 to the Form 10-K amends Part II, Item 8 of the Form 10-K with respect to the financial statements listed in Part IV, Item 15(a)(1) of the Form 10-K to file the Report with the conformed signature of Marcum LLP together with our financial statements previously filed with the Form 10-K. Other than adding the conformed signature line to the Report, we have made no other changes to Item 8 with respect to the financial statements listed in Item 15(a)(1).

Except as described above, this Amendment No. 1 to the Form 10-K does not amend any other information set forth in the Form 10-K, and we have not updated disclosures contained therein to reflect any events that may have occurred at a date subsequent to the date of the Form 10-K.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MARCUM LLP  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
AmBase Corporation

We have audited the accompanying consolidated balance sheets of AmBase Corporation and Subsidiaries (the "Company") as of December 31, 2011 and December 31, 2010, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. Our audit also included the financial statement schedule as of December 31, 2011 and 2010, and for the years then ended listed in the index at Item 15.

These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmBase Corporation and Subsidiaries, as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule for 2011 and 2010, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Marcum LLP  
Marcum LLP  
New Haven, CT  
March 28, 2012

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## AMBASE CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Operations

Years Ended December 31

(in thousands, except per share data)

|  | 2011       | 2010       |
|--|------------|------------|
| Operating expenses:  |            |            |
| Compensation and benefits                                      | \$1,410    | \$1,393    |
| Professional and outside services                              | 306        | 272        |
| Property operating and maintenance                             | 91         | 111        |
| Depreciation   | 48         | 49         |
| Insurance  | 33         | 38         |
| Other operating  | 97         | 92         |
| Total operating expenses                                       | 1,985      | 1,955      |
| Operating loss   | (1,985 )   | (1,955 )   |
| Interest income  | 9          | 22         |
| Realized gains on sales of investment securities               | 19         | 31         |
| Unrealized losses on trading securities                        | (12 )      | -          |
| Other income   | 124        | -          |
| Loss before income taxes                                       | (1,845 )   | (1,902 )   |
| Income tax expense   | 48         | 58         |
| Net loss   | \$(1,893 ) | \$(1,960 ) |
| Net loss per common share - basic                              | \$(0.04 )  | \$(0.04 )  |
| Net loss per common share - assuming dilution                  | \$(0.04 )  | \$(0.04 )  |
| Weighted average common shares outstanding - basic             | 43,075     | 43,075     |
| Weighted average common shares outstanding - assuming dilution | 43,075     | 43,075     |

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

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## AMBASE CORPORATION AND SUBSIDIARIES

## Consolidated Balance Sheets

December 31

(in thousands, except for share and per share amounts)

|  |           |           |
|--|-----------|-----------|
| Assets:  | 2011      | 2010      |
| Cash and cash equivalents  | \$7,615   | \$1,334   |
| Held to maturity investments (market value \$- and \$8,199, respectively)  | -         | 8,200     |
| Trading securities carried at fair value   | 212       | -         |
| Total investment securities  | 212       | 8,200     |
| Real estate owned:   |           |           |
| Land   | 554       | 554       |
| Buildings  | 1,900     | 1,900     |
| Real estate owned, gross   | 2,454     | 2,454     |
| Less: accumulated depreciation   | 533       | 485       |
| Real estate owned, net   | 1,921     | 1,969     |
| Other assets   | 246       | 259       |
| Total assets   | \$9,994   | \$11,762  |
| Liabilities and Stockholders' Equity:  |           |           |
| Liabilities:   |           |           |
| Accounts payable and accrued liabilities   | \$227     | \$220     |
| Other liabilities  | -         | 2         |
| Total liabilities  | 227       | 222       |
| Commitments and contingencies (Note 10)  |           |           |
| Stockholders' equity:  |           |           |
| Common stock (\$0.01 par value, 200,000,000 authorized, 46,410,007 issued and 43,075,410 outstanding in 2011 and 2010) | 464       | 464       |
| Additional paid-in capital   | 548,164   | 548,044   |
| Accumulated deficit  | (536,752) | (534,859) |
| Treasury stock, at cost - 3,334,597 shares   | (2,109 )  | (2,109 )  |
| Total stockholders' equity   | 9,767     | 11,540    |
| Total liabilities and stockholders' equity   | \$9,994   | \$11,762  |

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

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## AMBASE CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Changes in Stockholders' Equity

| (in thousands)           | Common<br>stock | Additional<br>paid-in<br>capital | Accumulated<br>deficit | Treasury<br>stock | Total     |
|--------------------------|-----------------|----------------------------------|------------------------|-------------------|-----------|
| December 31, 2009        | \$ 464          | \$ 548,044                       | \$ (532,899 )          | \$ (2,109 )       | \$ 13,500 |
| Net loss                 | -               | -                                | (1,960 )               | -                 | (1,960 )  |
| December 31, 2010        | 464             | 548,044                          | (534,859 )             | (2,109 )          | 11,540    |
| Net loss                 | -               | -                                | (1,893 )               | -                 | (1,893 )  |
| Stock-based compensation | -               | 120                              | -                      | -                 | 120       |
| December 31, 2011        | \$ 464          | \$ 548,164                       | \$ (536,752 )          | \$ (2,109 )       | \$ 9,767  |

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

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## AMBASE CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

Years Ended December 31

| (in thousands)   | 2011        | 2010        |
|--|-------------|-------------|
| Cash flows from operating activities:                                      |             |             |
| Net loss   | \$ (1,893 ) | \$ (1,960 ) |
| Adjustments to reconcile net loss to net cash used by operating activities |             |             |
| Depreciation   | 48          | 49          |
| Realized gains on sales of investment securities                           | (19 )       | (31 )       |
| Unrealized losses on trading securities                                    | 12          | -           |
| Stock-based compensation expense   | 120         | -           |
| Changes in other assets and liabilities:                                   |             |             |
| Accrued interest receivable in investment securities                       | -           | 9           |
| Other assets   | (8 )        | 113         |
| Accounts payable and accrued liabilities                                   | 7           | (69 )       |
| Other liabilities  | (2 )        | (10 )       |
| Net cash used by operating activities                                      | (1,735 )    | (1,899 )    |
| Cash flows from investing activities:                                      |             |             |
| Maturities of investment securities - held to maturity                     | 44,295      | 45,376      |
| Purchases of investment securities - held to maturity                      | (36,095 )   | (43,589 )   |
| Sales of investment securities   | 556         | 977         |
| Purchases of investment securities   | (761 )      | (946 )      |
| Proceeds from (investment in) real estate limited partnership              | 21          | (300 )      |

|  |          |          |
|--|----------|----------|
| Net cash provided by investing activities      | 8,016    | 1,518    |
| Net change in cash and cash equivalents        | 6,281    | (381 )   |
| Cash and cash equivalents at beginning of year | 1,334    | 1,715    |
| Cash and cash equivalents at end of year       | \$ 7,615 | \$ 1,334 |
| Supplemental cash flow disclosure:             |          |          |
| Income taxes paid                              | \$ 35    | \$ 110   |

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

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## AMBASE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### Note 1 - Organization

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

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

The Company currently earns non-operating revenue consisting principally of investment earnings on investment securities and cash equivalents. The Company continues to evaluate a number of possible acquisitions, and is engaged in the management of its assets and liabilities, including the contingent assets associated with its legal claims, as described in Notes 9 and 10. Discussions and negotiations are ongoing with respect to certain of these matters. From time to time, the Company and its subsidiaries may be named as a defendant in various lawsuits or proceedings. The Company intends to aggressively contest all litigation and contingencies, as well as pursue all sources for contributions to settlements.

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

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

##### Use of estimates in the preparation of financial statements

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.

##### Principles of consolidation

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

##### 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.

##### Investment securities

Securities that the Company has both the positive intent and ability to hold to maturity are classified as held to maturity investments and are carried at amortized cost. Investment securities - held to maturity consist of U.S. Treasury Bills with original maturities of three months or more and are carried at amortized cost (which includes accrued interest) based upon the Company's intent and ability to hold these investments to maturity. Trading securities consist of investments in equity securities held for trading purposes and are carried at fair value with net

unrealized gains and losses recorded directly in a statement of operations.

Interest and dividends on investment securities are recognized when earned. Realized gains and losses on the sale of investment securities – held for trading are calculated using an average cost basis for determining the cost basis of the securities. The fair value of publicly traded investment securities is determined by reference to current market quotations.

The Company continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary. If the decline in fair value is judged to be other than temporary, the cost basis of the security is written down to fair market value and the amount of the write down is included in the operations.

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## AMBASE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### 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 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. 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.

#### Earnings per share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of EPS that could occur if options to issue common stock were exercised. Options were anti-dilutive for all periods presented.

#### 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, 2018. 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. 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.

Stock-based compensation expense for all stock-based compensation awards for which vesting is based solely on employment service, are based on the grant date fair value estimated in accordance with accounting principles generally accepted in the United States of America. During the year ended December 31, 2011, the Company recorded compensation expenses of \$120,000 relating to stock options. 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. Compensation expense relating to stock options is recorded in the Consolidated Statement of Operations, with a corresponding increase in additional paid-in capital in the Consolidated Statement of Changes in Stockholders' Equity. See Note 8 herein for a further discussion of stock-based

compensation.

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## AMBASE CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## Depreciation

Depreciation expense for buildings is calculated on a straight-line basis over 39 years. Tenant improvements if any, would be depreciated over the lesser of the remaining life of the tenants' lease or the estimated useful lives of the improvements.

## Liquidity

The Company's management currently anticipates that operating cash needs for the next twelve months will be met principally by the Company's current financial resources and the receipt of investment earnings on investment securities and cash equivalents.

## New Accounting Pronouncements

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

## Note 3 - Investment Securities

Investment securities consist of the following:

| (in thousands)      | December 31, 2011 |                |            | December 31, 2010 |                |            |
|---------------------|-------------------|----------------|------------|-------------------|----------------|------------|
|                     | Carrying Value    | Amortized Cost | Fair Value | Carrying Value    | Amortized Cost | Fair Value |
| Held to Maturity:   |                   |                |            |                   |                |            |
| U.S. Treasury Bills | \$-               | \$ -           | \$ -       | \$8,200           | \$ 8,200       | \$8,199    |
| Trading:            |                   |                |            |                   |                |            |
| Equity Securities   | 212               | 224            | 212        | -                 | -              | -          |
|                     | \$212             | \$ 224         | \$ 212     | \$8,200           | \$ 8,200       | \$8,199    |

The gross unrealized gain (loss) on investment securities held to maturity consists of the following:

| (in thousands)               | December 31, 2011 | December 31, 2010 |
|------------------------------|-------------------|-------------------|
| Held to Maturity:            |                   |                   |
| Gross unrealized (loss) gain | \$ -              | \$ (1 )           |

Realized gain on the sales of investment securities held for trading:

| (in thousands)    | Full Year 2011 | Full Year 2010 |
|-------------------|----------------|----------------|
| Net sale proceeds | \$556          | \$977          |

|               |       |       |
|---------------|-------|-------|
| Cost basis    | (537) | (946) |
| Realized gain | \$19  | \$31  |

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## AMBASE CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Unrealized losses on investment securities held for trading is as follows:

(in thousands)

|                   | December<br>31,<br>2011 | December<br>31,<br>2010 |
|-------------------|-------------------------|-------------------------|
| Cost basis        | \$ 224                  | \$ -                    |
| Current value     | 212                     | -                       |
| Unrealized losses | \$ (12 )                | \$ -                    |

## Note 4 - Earnings Per Share

The calculation of basic and diluted earnings per share, including the effect of dilutive securities is as follows:

(in thousands, except per share data)

|  | Year<br>Ended<br>December<br>31, 2011 | Year<br>Ended<br>December<br>31, 2010 |
|--|---------------------------------------|---------------------------------------|
| Net loss   | \$ (1,893 )                           | \$ (1,960 )                           |
| Weighted average common shares outstanding                   | 43,075                                | 43,075                                |
| Effect of Dilutive Securities:                               |                                       |                                       |
| Assumed stock option exercise                                | -                                     | -                                     |
| Weighted average common shares outstanding assuming dilution | 43,075                                | 43,075                                |
| Net loss per common share - basic                            | \$ (0.04 )                            | \$ (0.04 )                            |
| Net loss per common share - assuming dilution                | (0.04 )                               | (0.04 )                               |

Options to purchase shares of common stock which were excluded from the computation of diluted earnings per share due to the effect of being antidilutive in the computation of earnings per share were as follows:

|               | December 31, 2011 | December 31, 2010 |
|---------------|-------------------|-------------------|
| Option shares | 816,000           | 836,000           |

## AMBASE CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## Note 5 - Stockholders' Equity

Authorized capital stock consists of 50,000,000 shares of cumulative preferred stock, \$0.01 par value, and 200,000,000 shares of Common Stock, \$0.01 par value.

Changes in the outstanding shares of Common Stock of the Company are as follows:

|                              | 2011       | 2010       |
|------------------------------|------------|------------|
| Balance at beginning of year | 43,075,410 | 43,075,410 |
| Common shares repurchased    | -          | -          |
| Balance at end of year       | 43,075,410 | 43,075,410 |

Common stock balances exclude treasury shares as follows:

|   | December<br>31, 2011 | December<br>31, 2010 |
|---|----------------------|----------------------|
| Treasury shares                           | 3,334,597            | 3,334,597            |
| Aggregate dollar value of treasury shares | \$2,109,000          | \$2,109,000          |
| Average cost per treasury share           | \$0.63               | \$0.63               |

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

|                                     | December 31, 2011 |
|-------------------------------------|-------------------|
| Common shares reserved for issuance | 5,110,000         |

## Stockholder Rights Plan

On January 29, 1986, the Company's Board of Directors declared a dividend distribution of one right for each outstanding share of Common Stock of the Company. The rights, as amended, which entitle the holder to purchase from the Company a common share at a price of \$75.00, are not exercisable until either a person or group of affiliated persons acquires 25% or more of the Company's outstanding common shares or upon the commencement or disclosure of an intention to commence a tender offer or exchange offer for 20% or more of the common shares. The rights are redeemable by the Company at \$0.05 per right at any time until the earlier of the tenth day following an accumulation of 20% or more of the Company's shares by a single acquirer or group, or the occurrence of certain Triggering Events (as defined in the Stockholder Rights Plan). In the event the rights become exercisable and thereafter, the Company is acquired in a merger or other business combination, or in certain other circumstances, each right will entitle the holder to purchase from the surviving corporation, for the exercise price, Common Stock having a market value of twice the exercise price of the right. The rights are subject to adjustment to prevent dilution and expire on February 10, 2016.



AMBASE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

Note 6 - Property Owned

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

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

The Company performs impairment tests if events or circumstances indicate that the property's carrying value may not be recoverable. As noted above, based on the Company's analysis the Company believes the carrying value of the property as of December 31, 2011, has not been impaired and; therefore, the carrying value of the asset is fully recoverable by the Company.

Note 7 - Savings Plans

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 30% of compensation, which are matched by the Company at a percentage determined annually. Effective July 1, 2010, the employer match was reduced to 33%, from 75% in 2009, of the amount of the employee's 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:

|                                | December  | December  |
|--------------------------------|-----------|-----------|
|                                | 31, 2011  | 31, 2010  |
| Company matching contributions | \$ 26,000 | \$ 43,000 |

Employer match % 33 % 33 %

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AMBASE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 8 - Incentive Plans

Under the Company's 1994 Senior Management Incentive Compensation Plan (the "1994 Plan"), any executive officer of the Company whose compensation is required to be reported to stockholders under the Securities Exchange Act of 1934 (the "Participants") and who is serving as such at any time during the fiscal year as to which an award is granted, may receive an award of a cash bonus ("Bonus"), in an amount determined by the Personnel Committee of the Company's Board of Directors (the "Committee") and payable from an annual bonus fund (the "Annual Bonus Pool"). The Committee may award Bonuses under the 1994 Plan to Participants not later than 120 days after the end of each fiscal year (the "Reference Year").

If the Committee grants a Bonus under the 1994 Plan, the amount of the Annual Bonus Pool will be an amount equal to the sum of (i) plus (ii), where:

(i) is ten percent (10%) of the amount by which the Company's Total Stockholders' Equity, as defined, on the last day of a Reference Year increased over the Company's Total Stockholders' Equity, as defined, on the last day of the immediately preceding Reference Year; and

(ii) is five percent (5%) of the amount by which the Company's market value, as defined, on the last day of the Reference Year increased over the Company's market value on the last day of the immediately preceding Reference Year.

Notwithstanding the foregoing, the 1994 Plan provides that in the event of a decrease in either or both of items (i) and/or (ii) above, the Annual Bonus Pool is determined by reference to the last Reference Year in which there was an increase in such item. If the Committee determines within the 120-day time period to award a Bonus, the share of the Annual Bonus Pool to be allocated to each Participant shall be as follows: 45% of the Annual Bonus Pool shall be allocated to the Company's Chief Executive Officer, and 55% of the Annual Bonus Pool shall be allocated pro rata to each of the Company's Participants as determined by the Committee. The Committee in its discretion may reduce the percentage of the Annual Bonus Pool to any Participant for any Reference Year, and such reduction shall not increase the share of any other Participant. The 1994 Plan is not the exclusive plan under which the Executive Officers may receive cash or other incentive compensation or bonuses. No Bonuses were paid attributable to the 1994 Plan for 2011 or 2010.

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. 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. 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.

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## AMBASE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

As a condition to any award of Restricted Stock or Merit Award under the 1993 Plan, the Committee may require a participant to pay an amount equal to, or in excess of, the par value of the shares of Restricted Stock or Common Stock awarded to him or her. Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered during a "Restricted Period", which in the case of grants to employees shall not be less than one year from the date of grant. The Restricted Period with respect to any outstanding shares of Restricted Stock awarded to employees may be reduced by the Committee at any time, but in no event shall the Restricted Period be less than one year. Except for such restrictions, the employee as the owner of such stock shall have all of the rights of a stockholder including, but not limited to, the right to vote such stock and to receive dividends thereon as and when paid. In the event that an employee's employment is terminated for any reason, an employee's Restricted Stock will be forfeited; provided, however, that the Committee may limit such forfeiture in its sole discretion. At the end of the Restricted Period, all shares of Restricted Stock shall be transferred free and clear of all restrictions to the employee. In the case of a Change in Control of the Company (as defined in the 1993 Plan), an employee may receive his or her Restricted Stock free and clear of all restrictions in the discretion of the Committee, or as may otherwise be provided pursuant to the employee's Restricted Stock award.

Performance Share awards of Common Stock under the 1993 Plan shall be earned on the basis of the Company's performance in relation to established performance measures for a specific performance period. Such measures may include, but shall not be limited to, return on investment, earnings per share, return on stockholder's equity, or return to stockholders. Performance Shares may not be sold, assigned, transferred, pledged or otherwise encumbered during the relevant performance period. Performance Shares may be paid in cash, shares of Common Stock or shares of Restricted Stock in such portions as the Committee may determine. An employee must be employed at the end of the performance period to receive payments of Performance Shares; provided, however, in the event that an employee's employment is terminated by reason of death, disability, retirement or other reason approved by the Committee, the Committee may limit such forfeiture in its sole discretion. In the case of a Change in Control of the Company (as defined in the 1993 Plan), an employee may receive his or her Performance Shares in the discretion of the Committee, or as may otherwise be provided in the employee's Performance Share award.

Incentive plan activity is summarized as follows:

(shares in thousands)

|                                  | Number<br>of<br>Shares<br>Under<br>Option | Weighted<br>Average<br>Exercise<br>Price | Intrinsic<br>Value |
|----------------------------------|---|--|--------------------|
| Outstanding at December 31, 2009 | 851                                       | \$ 0.87                                  |                    |
| Expired                          | (15 )                                     | 0.95                                     |                    |
| Outstanding at December 31, 2010 | 836                                       | 0.87                                     |                    |
| Expired                          | (20 )                                     | 0.95                                     |                    |
| Outstanding at December 31, 2011 | 816                                       | 0.88                                     | \$ 188,000         |
| Options exercisable at:          |   |  |                    |
| December 31, 2011                | 816                                       | \$ 0.88                                  | \$ 188,000         |
| December 31, 2010                | 836                                       | 0.87                                     |                    |



December 31, 2009

851 0.87

On December 30, 2011, the Company extended the option expiration date of outstanding option agreements aggregating 200,000 shares for an additional two (2) years, to an expiration date of January 2, 2014, from the prior expiration date of January 2, 2012. As a result of the extension of the stock options expiration date, the exercise price of the stock options was changed to \$1.11 per share from the prior exercise price of \$1.09 per share.

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## AMBASE CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Summarized information about the Company's stock options outstanding and exercisable under the 1993 Plan at December 31, 2011, is as follows:

| (shares in thousands)    |         | Option Outstanding         |                             | Options Exercisable             |        |                                 |                             |  |
|--------------------------|---------|----------------------------|-----------------------------|---------------------------------|--------|---------------------------------|-----------------------------|--|
| Range of Exercise Prices |         | Weighted Average Remaining | Contractual Life (in years) | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Contractual Life (in years) |  |
| From                     | To      | Shares                     |                             |                                 |        |                                 |                             |  |
| \$ 0.64                  | \$ 0.81 | 480                        | 2.52                        | \$0.72                          | 480    | \$0.72                          | 2.52                        |  |
| 1.09                     | 1.11    | 336                        | 1.20                        | 1.10                            | 336    | 1.10                            | 1.20                        |  |
| Total                    |         | 816                        | 1.97                        |                                 | 816    | 0.88                            | 1.97                        |  |

Information relating to the 1993 Plan as of the dates indicated below is as follows:

|  | December 31, 2011 | December 31, 2010 |
|--|-------------------|-------------------|
| Unamortized compensation cost from non-vested stock options  | \$-               | \$-               |
| Stock based compensation expense recorded for the year ended   | \$120,000         | \$-               |
| Options to purchase shares of common stock which were excluded from computation of diluted earnings per share due to the effect of being anti-dilutive in the computation of earnings per share. | 816,000           | 836,000           |
| Shares available for future stock option grants  | 4,184,000         |                   |

The fair value of option awards are estimated on the date of grant using the Black-Scholes-Merton option valuation model ("Black-Scholes") utilizing certain assumptions as noted in the table below. Expected volatilities are based on historical volatility of the Company's stock. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The expected term of options granted are 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 per share grant dated 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 year ended below were as follows:

|   | 2011   |
|---|--------|
| Weighted average fair value at grant date | \$0.60 |
| Estimated dividend yield                  | 0 %    |
| Risk free interest rate                   | 0.25 % |
| Estimated volatility                      | 1.039  |
| Expected life in years                    | 2      |

Compensation expense relating to stock options is recorded in the Consolidated Statement of Operations, with a corresponding increase to additional paid in capital in the Consolidated Statement of Stockholders' Equity. The total fair value of shares vested during the full year period ended December 31, 2011 was \$120,000. As of December 31, 2011, there was no remaining unamortized compensation cost related to non-vested share-based compensation arrangements related to stock options granted under the 1993 Plan.

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## AMBASE CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected life of the stock-based award and stock price volatility. The assumptions utilized represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if other assumptions had been used, our recorded stock-based compensation expense could have been materially different from the amounts recorded. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If the 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.

## Note 9 - Income Taxes

The components of income tax expense (benefit) for the years ended December 31 are as follows:

| (in thousands)                         | 2011  | 2010  |
|--|-------|-------|
| Income tax expense (benefit) - current | \$ 48 | \$ 58 |
| Total                                  | \$ 48 | \$ 58 |

The components of pretax loss and the difference between income taxes computed at the statutory federal rate of 35% in 2011 and 2010, and the provision for income taxes for the years ended December 31 follows:

| (in thousands)                                  | 2011      | 2010      |
|---|-----------|-----------|
| Loss before income taxes                        | \$(1,893) | \$(1,902) |
| Tax expense (benefit) :                         |           |           |
| Tax at statutory federal rate                   | \$663     | \$666     |
| Accounting loss benefit not recognized          | (663 )    | (666 )    |
| State income taxes                              | 48        | 58        |
| Adjustment to prior year estimated tax accruals | -         | -         |
| Income tax expense (benefit)                    | \$48      | \$58      |

## AMBASE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

There were no unrecognized tax benefits at January 1, 2011 or December 31, 2011. Further, no significant changes in unrecognized income tax benefits are currently expected to occur over the next year. Interest and/or penalties related to underpayments of income taxes, if applicable, would be included in interest expense and operating expenses, respectively. The accompanying financial statements do not include any amounts for any such interest and/or penalties. The Company's federal income tax returns for the years subsequent to 1992 have not been reviewed by the Internal Revenue Service ("IRS") or state authorities, except for tax year 2007. In October 2009, the Company received notification from the IRS that they would be reviewing the Company's 2007 federal income tax return. In connection with the IRS audit, in April 2010, the IRS issued the Company a Notice of Proposed Adjustment for tax year 2007, proposing to disallow approximately \$16.6 million of deductions previously recognized by the Company on its 2007 Federal income tax return (the "IRS Proposed Adjustment"). The IRS Proposed Adjustment sought to disallow the Company's tax deduction for the payment made by the Company in 2007 in satisfaction of its Supplemental Retirement Plan obligation. In October 2011, the IRS and the Company agreed to a settlement of this matter, pursuant to which the IRS agreed to allow a \$9.5 million deduction in 2007 relating to this item. This matter is therefore concluded. 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 2008.

State income tax amounts for 2011 and 2010 are primarily attributable to a provision for a minimum tax on capital imposed by the state of Connecticut.

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. §1.597-4(g), the Company had previously filed its 1992 and subsequent federal income tax returns with Carteret disaffiliated from the Company's consolidated federal income tax return. Based upon the impact of Treasury Reg. §1.597-4(g), which was issued in final form on December 20, 1995, a continuing review of the Company's tax basis in Carteret, and the impact of prior year tax return adjustments on the Company's 1992 federal income tax return as filed, the Company 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").

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. The Company believes, as a result of remaining consolidated with Carteret FSB for federal income tax return purposes, that the Company's tax basis in its investment in Carteret/Carteret FSB can be converted into NOL's, as tax losses are incurred, which could be available to carryforward/carryback into various federal income tax return years. However; since all of the 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.

Based on information received to date, and prior to the recognition of the 1992 tax losses reflected on the Company's 1992 amended federal income tax return, as further described below, the Company estimated that as of December 1992 it had a remaining tax basis related to its' investment in Carteret/Carteret FSB of approximately \$158 million. Based on the Company's Election Decision, described above, and the receipt of some of the requested information from the RTC/FDIC, the Company amended its 1992 consolidated federal income tax return to include the federal income tax effects of Carteret and Carteret FSB, (the "1992 Amended Return"). The Company is still in the process of reviewing its consolidated federal income tax returns for 1993 and subsequent years.

The Company expects that the 1992 Amended Return will generate approximately \$56 million of NOL's for tax year 1992, which the Company is seeking to carryback to prior tax years to produce refunds of tax previously paid. The 1992 Amended Return has not yet been accepted by the IRS. See "Carryback Claims," below for further information. As part of the 1992 Amended Return approximately \$56 million, (of the \$158 million), of Carteret/Carteret FSB tax basis is expected to be converted into NOL's, (as tax losses are incurred) in tax year 1992, and will have expired in the 2007 tax year, unless they are utilized as part of the "Carryback Claims" as further discussed below, or absorbed in earlier years based on inclusion of certain items in the consolidated group.

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## AMBASE CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The Carteret/Carteret FSB tax basis, of approximately \$102 million, remaining after recognition of the 1992 Amended Return, may be converted into NOL carryforwards/carrybacks as additional tax losses are incurred by Carteret/Carteret FSB and may be carried back or carried forward to other tax years; may be utilized in other tax years; or could begin to expire no earlier than the 2008 tax year based upon the year any NOL's are ultimately generated. The Company can give no assurances with regard to the 1992 Amended Return, subsequent year returns, or the final amount or expiration of NOL carryforwards/carrybacks ultimately generated, if any, from the Company's tax basis in Carteret/Carteret FSB. Any NOL's ultimately generated from the Company's tax basis in Carteret/Carteret FSB, would be in addition to the NOL carryforwards/carrybacks generated based on the Company's federal income tax returns as previously filed, as further detailed above.

In March 2000, the Company filed with the IRS several carryback claims and amendments to previously filed carryback claims (the "Carryback Claims") seeking refunds from the IRS of alternative minimum tax and other federal income taxes paid by the Company in prior years plus applicable IRS interest, based on the filing of the 1992 Amended Return. 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. On April 29, 2008, the Company filed suit in the United States District Court for the District of Connecticut (the "Court") for the tax refunds it seeks, plus interest, with respect to the Carryback Claims. On September 29, 2009, the U.S. Department of Justice, representing defendant United States in the suit, filed a Motion to Dismiss. In response, on October 19, 2009, the Company filed its opposition to the Government's Motion to Dismiss, as well as the Company's own Motion for Partial Summary Judgment. In June 2010, the Court issued a Memorandum Decision conditionally granting the United States' Motion to Dismiss the case but allowing the Company to conduct limited discovery to establish whether the Court has jurisdiction. On August 30, 2010, the Company filed a Motion to Set Aside the Court's Conditional Order of Dismissal. On February 28, 2011, the Court granted the Company's motion and issued a Memorandum of Decision concluding that the Company had timely filed a refund claim for tax year 1992 seeking to adjust the amount of bad debt deduction and that the case should not be dismissed. In March 2011, the Company filed a Motion for Partial Summary Judgment based on the Court's ruling that the Company's refund claims were timely filed. In May 2011, the Government filed a Cross Motion for Summary Judgment and an opposition to the Company's Summary Judgment Motion. In June 2011, the Company filed a Memorandum in Opposition to the Government's Cross Motion for Summary Judgment and a Reply to the Governments Opposition to the Company's Summary Judgment Motion, and the Government in June 2011, subsequently filed a response brief. The Court granted the Company's motion in part and denied it in part, in a Memorandum Decision dated November 30, 2011. On January 26, 2012, the Company filed a Motion for Partial Summary Judgment as to the amount of additional bad debt deduction that should be allowed. On February 16, 2012, the Government filed an Opposition to the Company's Motion for Partial Summary Judgment. On February 28, 2012, the Company filed a Reply to the Government's Opposition to the Company's Motion for Partial Summary Judgment. The Company expects the Court to issue a ruling that may or may not be dispositive of the case. The Company can give no assurances as to the final amount of refunds, if any, or when they might be received. The accompanying financial statements exclude legal fees in connection with the Carryback Claims proceedings as these legal fees are payable pursuant to a contingency fee arrangement with the attorneys upon a final recovery received. See Note 10 – Legal Proceedings.

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.





## AMBASE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

The Company believes the Carteret FSB federal income tax returns filed by the FDIC were improperly filed and are neither accurate nor valid. The FDIC, as indicated above, continues to report the 1995 federal income tax liability, including interest and penalty, as a component of the alleged Carteret FSB receivership deficit. As part of the Supervisory Goodwill legal proceedings, the Company presented to the Court of Claims various arguments to support the position that no federal income tax would be owed as a result of the Carteret FSB receivership operations for tax year 1995; however, the Department of Justice and the FDIC have stated to the Court of Claims that they do not believe the Court of Claims has jurisdiction over that issue. The Supervisory Goodwill proceedings remain pending in the Court of Claims. 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 based upon consultation with its legal and tax advisors 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 is continuing to try to resolve these matters as part of the Supervisory Goodwill legal process and is also continuing to review the Carteret FSB federal income tax returns and the results of their inclusion with the Company's federal income tax returns as previously filed. The Company is pursuing the Carryback Claims, as further described above, which could have an impact on the analysis of the prior year tax information. For further information on the Supervisory Goodwill legal proceedings, see Note 10 herein. 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.

Based upon the Company's federal income tax returns as filed through 2010 (subject to IRS audit adjustments), excluding all effects of the inclusion of Carteret/Carteret FSB from December 4, 1992 forward, as further discussed herein, the Company has NOL carryforwards available to reduce future federal taxable income, which expire if unused in the tax years as indicated below. The utilization of certain carryforwards and carrybacks is subject to limitations under U.S. federal income tax laws. The amounts as of December 31, 2011 are as follows:

| Tax Year | Tax Originating Year | Expiring Year | Amount      |
|----------|----------------------|---------------|-------------|
| 1997     | 2012                 |               | \$1,100,000 |
| 1998     | 2018                 |               | 5,400,000   |
| 1999     | 2019                 |               | 4,000,000   |
| 2000     | 2020                 |               | 2,600,000   |
| 2001     | 2021                 |               | 4,000,000   |
| 2002     | 2022                 |               | 3,200,000   |

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|      |      |              |
|------|------|--------------|
| 2003 | 2023 | 1,800,000    |
| 2004 | 2024 | 700,000      |
| 2006 | 2026 | 2,800,000    |
| 2007 | 2027 | 12,700,000   |
| 2008 | 2028 | 4,600,000    |
| 2009 | 2029 | 2,400,000    |
| 2010 | 2030 | 1,900,000    |
|      |      | \$47,200,000 |

Additionally, approximately \$2.0 million of NOL carryforwards could be generated from the 2011 tax year which would expire if unused in the 2031 tax year. 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 defined further above, the Company would seek to utilize approximately \$8 million of the \$21 million of AMT Credits.

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## AMBASE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

In addition to the NOL's noted above, the Company had additional NOL carryforwards which will have expired unless they are utilized in a prior tax year or absorbed in an earlier year based on the inclusion of certain items in the consolidated group as follows:

| Tax Year Originating | Tax Year Expiring | Amount      |
|----------------------|-------------------|-------------|
| 1994                 | 2009              | \$2,200,000 |
| 1995                 | 2010              | \$5,300,000 |
|                      |                   | \$7,500,000 |

The Company has calculated a net deferred tax asset arising primarily from NOL carryforwards and AMT credits as follows.

|                                   | December<br>31, 2011 | December<br>31, 2010 |
|-----------------------------------|----------------------|----------------------|
| Net deferred tax asset            | \$38,000,000         | \$40,000,000         |
| Valuation allowance               | (38,000,000)         | (40,000,000)         |
| Net deferred tax asset recognized | \$-                  | \$-                  |

The net deferred tax asset amounts noted above do not include the anticipated tax effects of the NOL's which could be generated from the Company's investment in Carteret, resulting from the Election Decision, as more fully described above. 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.

#### Note 10 - Legal Proceedings

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

**Supervisory Goodwill Litigation.** During the third quarter of 1993, the Company filed a claim against the United States, in the United States Court of Federal Claims (the "Court of Federal Claims" or the "Court"), based upon the impact of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") on the Company's investment in Carteret Savings Bank ("Carteret"). Approximately 120 other similar so-called "supervisory goodwill" cases were commenced by other financial institutions and/or their shareholders. Three of these cases, *Winstar Corp. v. United States*, *Glendale Federal Bank, FSB v. United States*, and *Statesman Savings Holding Corp. v. United States* (the "Consolidated Cases"), which involve many of the same issues raised in the Company's suit, were appealed to the United States Supreme Court (the "Supreme Court"). On July 1, 1996, the Supreme Court issued a decision in the Consolidated Cases. The Supreme Court's decision affirmed the lower Court's grant of summary judgment in favor of the plaintiffs on the issue of liability and remanded the cases for a determination of damages. Although the decision in the Consolidated Cases is beneficial to the Company's case, it is not necessarily indicative of the ultimate outcome of the Company's action.

On September 18, 1996, the Court of Federal Claims entered an Omnibus Case Management Order that governed further pretrial proceedings in the Company's action and most of the other so-called "Winstar-related" cases. On March 14, 1997, the Court entered an order permitting the Federal Deposit Insurance Company ("FDIC") to intervene as an additional plaintiff in forty-three cases, including the Company's case, but not allowing the FDIC to be substituted as the sole plaintiff in those cases.



## AMBASE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

On March 20, 1998, the FDIC filed a motion for partial summary judgment against the United States on certain liability issues, and the Company filed a memorandum in support of that motion. Fact discovery for the Company was completed on November 30, 1999 pursuant to an extension of time granted by the Court. On September 9, 1999, the Company filed a Motion for Partial Summary Judgment on Liability under a Fifth Amendment Takings claim theory of recovery. On November 24, 1999, the FDIC, as successor to the rights of Carteret and as Plaintiff-Intervener in the case, filed a response brief opposing the Company's Motion. On December 6, 1999, the Department of Justice (the "DOJ") (on behalf of the United States) filed a brief opposing the Company's Motion for Partial Summary Judgment on Liability and Cross-Moved for Summary Judgment on the Company's Takings claim. On January 25, 2000, the Company responded to the DOJ's brief and the FDIC's brief by filing a Brief (i) In Reply To Defendant's Opposition To Plaintiffs' Motion For Partial Summary Judgment, (ii) In Opposition To Defendant's Cross-Motion For Summary Judgment, and (iii) In Reply To FDIC's Response To Plaintiffs' Motion For Partial Summary Judgment. On February 22, 2000 the DOJ filed a brief in Reply To Plaintiffs' Opposition To Defendant's Cross-Motion For Summary Judgment.

On October 2, 2000, Senior Judge Loren Smith of the Court of Federal Claims ("Judge Smith") heard oral arguments in the Company's Supervisory Goodwill case against the United States government. The Court heard arguments both as to the contractual liability of the United States to Carteret Savings Bank, and as to the Company's claim against the United States under the Takings Clause of the Fifth Amendment.

On August 25, 2003, the Court of Federal Claims issued a decision in which it (i) ruled that the Government had entered into and breached its supervisory goodwill contracts with the Company's wholly-owned subsidiary, Carteret; (ii) rejected the Company's claim that it was entitled to recover damages directly from the Government under the Takings Clause for the loss of Carteret; and (iii) rejected the Company's claim that the Government had "illegally exacted" \$62.5 million that the Company paid into Carteret subsequent to the Government's breach of the Goodwill contracts. Specifically, the Court held that the Company could not recover damages under the Takings Clause because it could be restored to the position it was in before the breach through Carteret's breach of contract action.

On September 17, 2003, the Company filed a motion to dismiss the FDIC and to define the appropriate measure of Carteret's contract damages. On September 30, 2003, the FDIC, as plaintiff-intervener in the case, and the United States, as defendant in the case, each filed a separate response to the Company's motion. The Company argued in its motion that because Carteret would not have been seized but for the Government's breach of contract, no receivership deficit would have been incurred. Accordingly, the Company argued that Carteret should be entitled to recover contract damages that include both: (i) the full amount of the receivership deficit, as an offset to the deficit and (ii) the full amount of the positive value it would have had but for the breach. Alternatively, the Company argued that, if Carteret is not entitled to recover both these amounts, or if any award must be offset by the amount of the receivership deficit, the Company should be entitled to demonstrate why the receivership deficit has been erroneously overstated. The DOJ responded in part with the argument that, among other things, Carteret would have failed even if Supervisory Goodwill was counted. The FDIC, who is both the receiver for the estate of Carteret (and hence claims to be its legal advocate in court) as well as a creditor of the estate, took the position that the Court of Federal Claims has no jurisdiction to review the accuracy, validity, or amount of the Carteret receivership deficit reported by the FDIC. That receivership deficit consists primarily of the FDIC's subrogated claim against the thrift, interest, taxes, and administrative expenses charged by the FDIC to the thrift. Because the receivership deficit continues to accrue interest, it grows on a daily basis.

On October 1, 2003, the Court held a telephonic status conference pursuant to an order set forth in the August 25, 2003 opinion. Pursuant to that status conference, the Court ordered that through their additional briefing on the Company's Motion to Dismiss the FDIC and to define the appropriate measure of Carteret's contract damages (i.e.,

through the Company's reply brief and the surreply brief granted to the FDIC and the United States), the parties should address the question of, "whether the Court has the power to review the amount of the receivership deficit as administered by the FDIC." In an order dated October 16, 2003, the Court modified the briefing schedule such that the Company filed its reply brief as required on October 31, 2003, and the surreply brief of the FDIC and the United States were filed as required in November, 2003. The Court held oral argument on this issue on November 20, 2003. The DOJ and the FDIC filed briefs arguing that (1) the Court of Federal Claims had no authority to scrutinize the validity of the receivership deficit reported by the FDIC and (2) the Court should dismiss AmBase's remaining damages claims because they were allegedly waived. On August 31, 2004, the Court denied the Company's Motion to Dismiss the FDIC, but granted the Company's Motion to Define the Measure of Carteret's Contract Damages to the extent it requested the Court to consider the size and value of the FDIC's receivership deficit when calculating damages. The Court subsequently conducted a status conference on October 4, 2004, and ordered the Company to submit a proposed litigation time-line to the Court by October 22, 2004 which was timely submitted. The Court ordered the United States and the FDIC to respond to the Company's proposed litigation time-line by November 5, 2004 which was timely submitted. A status conference was held on January 11, 2005.

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## AMBASE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

On January 12, 2005, the Court ordered that pursuant to the Court's order from the bench, the Defendant's Motion for Reconsideration of the August 31, 2004 Ruling, and, in the Alternative, to dismiss the Stockholder Derivative Claim and the Complaint-in-Intervention was denied. The Court further ordered that this matter be stayed for 30 days for the Defendant and/or Plaintiff-Intervener to consider filing a Request for Certification for Interlocutory Appeal. The Court held a telephonic status conference on February 11, 2005 at which time the Court ordered that fact discovery was to resume on February 14, 2005 and would continue for at least three (3) months. The Court further scheduled a telephonic status conference for May 2005, to discuss the need for further discovery.

On January 12, 2005, Judge Smith denied the government's motion to dismiss the Company's remaining claims arising out of damages for breach of contract. On March 15, 2005, the DOJ and the FDIC each filed motions requesting that Judge Smith certify for immediate appeal his ruling that the Company is entitled to challenge the validity of the receivership deficit. The Company filed its reply to these motions on March 29, 2005. In April 2005, Judge Smith heard oral argument on the DOJ and FDIC motions requesting that Judge Smith certify for immediate appeal his ruling that the Company is entitled to challenge the validity of the receivership deficit. Because Judge Smith's ruling on the receivership deficit issue was not a final order, both Judge Smith and the Court of Appeals for the Federal Circuit would have to agree to an appeal of that issue at that time. Following the April 2005 oral argument, Judge Smith entered an order, on April 25, 2005, staying resolution of the motions to certify an interlocutory appeal pending the holding of a "show cause" hearing. Judge Smith indicated at the oral argument that the purpose of the show cause hearing was to allow the Company to outline the evidence and arguments it was prepared to offer in order to challenge the validity and size of the receivership deficit. Judge Smith directed the parties to attempt to reach agreement regarding a schedule for the completion of discovery on receivership deficit issues, and he directed the parties to submit to the Court such an agreed proposed discovery schedule, or, if the parties were unable to reach agreement, separate proposed schedules for discovery, in early May 2005. Judge Smith further encouraged the parties to discuss the procedures and schedule for the show cause hearing, and to provide the Court with a proposed order on such matters.

In accordance with the Court's direction, the parties agreed upon a schedule for the completion of fact discovery and procedures for the show cause proceeding. In accordance with the parties' agreement, Judge Smith entered an order on May 23, 2005, providing that fact discovery would be completed within 45 days of the completion of document production by the Government. The May 23, 2005, order further provided that (i) 45 days after the close of discovery, the Company was to file a statement of issues summarizing the respects in which the receivership books allegedly overstate or misstate the receivership deficit; (ii) 45 days after the filing of the Company's statement of issues, the United States and the FDIC were to file responses; and (iii) 15 days after the filing of such responses, the Company was to file a reply.

In May and June of 2005, the Government provided the Company with access to Carteret's documents and documents relating to the management of the receivership. The Company selected approximately 3 million pages of documents to be imaged at the Government's expense. In September 2005, a status conference was held before Judge Smith. The Government indicated that it would complete production of all the images of the selected materials by the end of September 2005. Additionally, at the status conference, all parties agreed that the schedule previously set forth by the Court's May 23, 2005 order should be changed in one respect: the Company would be given 75 days from the completion of the document production to complete discovery. The Court issued an order on September 26, 2005 memorializing this agreement. On January 11, 2006, the Court held a status conference. At that time, the Court indicated that the document production would be deemed complete as of that date. The Court's order of January 13, 2006, memorialized this ruling. Accordingly, fact discovery was completed in April 2006, and the Company's statement of issues was ultimately filed in June of 2006. In May 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 was held in November 2006 and December 2006, to discuss further proceedings. On December 13, 2006, the Court entered an order denying defendant's request that the Court allow an immediate appeal of the Court's ruling that it had jurisdiction to consider the validity of the receivership deficit. The Court also found that it continued to have jurisdiction to hear the case. The Court also ordered the parties to enter a schedule for expert discovery.

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AMBASE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

On April 13, 2007, Judge Smith issued an order scheduling pretrial, and trial deadlines and dates, including scheduling a trial to commence on February 11, 2008. In accordance with the Court's scheduling in May 2007, the Company submitted its expert report. The Government deposed the Company's expert in June 2007. In July 2007, the Government identified its damages experts and submitted its expert reports in September 2007. The Company deposed the Government's experts in October 2007.

Pursuant to the Court order, the Court heard oral argument on November 14, 2007 at the Court of Federal Claims, to decide whether the trial could be avoided by summary judgment, pursuant to papers filed by the parties on November 7, 2007 and November 19, 2007. On November 30, 2007, the Court ordered the parties to continue with the trial schedule as previously set forth.

Subsequently on December 7, 2007, the parties exchanged exhibit and witness lists; on December 14, 2007 the parties submitted an hour-by-hour anticipated trial schedule to the Court; on December 21, 2007 Plaintiffs and FDIC-R filed Appendix A submissions; on January 8, 2008 a pretrial conference was held in the Court of Federal Claims; on January 21, 2008 the Defendant filed Appendix A submissions; and on February 11, 2008 trial was commenced.

Trial testimony of fact and expert witnesses for the Company, the DOJ, and the FDIC was completed on April 4, 2008. At trial, fact witness and expert witness testimony was presented by the Company, and by the United States Government represented by the DOJ. In addition, the FDIC-Receiver (purporting to act as a plaintiff-intervener in its capacity as successor-in-interest to Carteret) participated in the trial and the examination of witnesses. The Company put forth various theories of damages, including claims for the recovery of the value of Carteret as of the date of the breach or the date of judgment, as well as for the recovery of certain so-called "wounded bank" damages incurred by Carteret as a result of the breach. The DOJ responded with various theories, including, among other things that Carteret would have failed even if Supervisory Goodwill was counted. The DOJ also challenged the Company's calculations of the value of Carteret and the damages theories and evidence underlying the Company's "wounded bank" claims. The FDIC essentially adopted the Company's damages claims evidence, but has continued to argue (along with DOJ) that the FDIC-Receiver is entitled to recover on these claims.

After the completion of trial testimony, the Court held a status conference in April 2008 pursuant to which the Court issued a post trial scheduling order providing for the filing of post trial briefs and proposed findings of fact by the Company, and DOJ and the FDIC. Pursuant to the Court's post-trial scheduling order as revised on July 1, 2008, the Company filed its post-trial brief and proposed findings of fact. The FDIC also filed its post-trial brief on July 1, 2008. In September 2008, the DOJ filed its post-trial brief and proposed findings of fact. In October 2008, the Company filed its post-trial reply brief and the FDIC filed its post-trial reply brief in November 2008. Post-trial briefing was concluded in December 2008, with the filing of sur-reply briefs by both the Company and DOJ.

On February 12 and 17, 2009, the Court heard closing arguments. At the conclusion of closing arguments, the Court ruled that the FDIC and DOJ could file short supplemental briefs addressing certain limited issues by March 6, 2009, and that the Company could file a short responsive brief on March 25, 2009. In May 2009, the DOJ requested and simultaneously filed with the Court an additional supplemental brief. The Court granted the DOJ's motion and permitted the DOJ's additional supplemental brief. The Company subsequently requested and the Court allowed the Company to file a responsive supplemental brief to the DOJ brief which was filed in June 2009.

AMBASE CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

On August 31, 2011, Judge Smith of the Court of Federal Claims issued a damages opinion in the Company's Supervisory Goodwill legal proceedings. Pursuant to Judge Smith's opinion, the Plaintiffs were awarded directly \$205,013,000 in lost value expectancy damages, plus tax gross-up if applicable. The decision indicates that the damages were awarded net any receivership deficit and outside the statutory receivership distribution scheme. A copy of the Court's damages opinion is available on the Court of Claims website at [www.uscfc.uscourts.gov](http://www.uscfc.uscourts.gov). The Company has no contingent fee agreements in place with its attorneys or any outside advisor in connection with the Supervisory Goodwill legal proceedings or award. On September 28, 2011, the DOJ filed a Motion for Reconsideration of Opinion and Order Dated August 31, 2011. The Company filed its opposition to the DOJ's motion on October 17, 2011. The DOJ filed its reply brief on October 26, 2011. On October 31, 2011, Judge Smith issued an order denying the DOJ's Motion to Reconsider and the Court clarified its opinion with regard to mitigation.

On December 29, 2011, the DOJ, on behalf of the United States, filed a Notice of Appeal to the United States Court of Appeals for the Federal Circuit from the judgment in No. 93-531C, entered on August 31, 2011, including (but not limited to): (1) the published opinion and order in No. 93-531, entered on August 31, 2011; and (2) the order denying the motion for reconsideration in No. 93-531, entered on October 31, 2011 with regard to the Company's Supervisory Goodwill case. In January 2012, both the Company and the FDIC-Receiver filed cross-appeals from the Court of Federal Claims' judgment. Briefing before the Court of Appeals for the Federal Circuit on the various appeals has not yet commenced, and there is no timetable for the Court of Appeals to issue a decision in the case.

On March 8, 2012, the DOJ, on behalf of the United States of America, filed a motion to extend the deadline for filing its initial appellate brief, which was due to expire on March 19, 2012, to May 18, 2012. Preliminary discussions between representatives of the Company and of the DOJ regarding a possible settlement of the Supervisory Goodwill legal proceedings have taken place in recent months. In light of those discussions, the Company did not contest the DOJ's motion to extend the briefing deadline.

Settlement discussions may not progress, and may be discontinued or continued, at any time or from time to time.

The outcome of any settlement discussions cannot be predicted. The Company expressly disclaims any obligation to update, in its public filings with the Commission, or via other forms of public dissemination, the status or progress of any informal or formal settlement discussions with respect to the Supervisory Goodwill legal proceedings, and no inference regarding the status of any such settlement proceedings should be drawn from the absence or frequency of any such updates. The Company, with its outside advisors, will continue to take appropriate steps on behalf of AmBase's interest.

The Court of Federal Claims decisions and certain filings in the Company's case, as well as other decisions in Winstar related cases, are publicly available on the Court of Federal Claims web site at [www.uscfc.uscourts.gov](http://www.uscfc.uscourts.gov). In addition, decisions in Winstar-related cases that have been issued by the U.S. Court of Appeals for the Federal Circuit, the court that hears appeals from decisions by the Court of Federal Claims, may be found on that court's website at [www.ca9.uscourts.gov](http://www.ca9.uscourts.gov). Decisions in other Winstar related cases may be relevant to the Company's Supervisory Goodwill claims, but are not necessarily indicative of the ultimate outcome of the Company's actions. The Company can give no assurances regarding the ultimate outcome of the Supervisory Goodwill legal proceedings, the final amount of any award or when it might be received.

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## AMBASE CORPORATION AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Federal income tax refund suit on Carryback Claims. In March 2000, the Company filed with the IRS several claims and amendments to previously filed claims with respect to the Carryback Claims, seeking refunds from the IRS of alternative minimum tax and other federal income taxes paid by the Company in prior years, plus applicable IRS interest, based on the filing of the 1992 Amended Return. In February 2005, the IRS formally disallowed the Carryback Claims. On April 29, 2008, the Company filed suit with respect to the Carryback Claims in the United States District Court for the District of Connecticut, seeking federal tax refunds for tax year 1989, plus interest. On September 29, 2009, the U.S. Department of Justice, representing defendant United States in the suit, filed a Motion to Dismiss. In response, on October 19, 2009, the Company filed its opposition to the Government's Motion to Dismiss, as well as the Company's own Motion for Partial Summary Judgment. In June 2010, the Court issued a Memorandum Decision conditionally granting the United States' Motion to Dismiss the case but allowing the Company to conduct limited discovery to establish whether the Court has jurisdiction. On August 30, 2010, the Company filed a Motion to Set Aside the Court's Conditional Order of Dismissal. On February 28, 2011, the Court granted the Company's motion and issued a Memorandum of Decision concluding that the Company had timely filed a refund claim for tax year 1992 seeking to adjust the amount of bad debt deduction and that the case should not be dismissed. In March 2011, the Company filed a Motion for Partial Summary Judgment based on the Court's ruling that the Company's refund claims were timely filed. In May 2011, the Government filed a Cross Motion for Summary Judgment and an opposition to the Company's Summary Judgment Motion. In June 2011, the Company filed a Memorandum in Opposition to the Government's Cross Motion for Summary Judgment and a Reply to the Government's Opposition to the Company's Summary Judgment Motion, and the Government in June 2011, subsequently filed a response brief. The Court granted the Company's motion in part and denied it in part, in a Memorandum Decision dated November 30, 2011. On January 26, 2012, the Company filed a Motion for Partial Summary Judgment as to the amount of additional bad debt deduction that should be allowed. On February 16, 2012, the Government filed an Opposition to the Company's Motion for Partial Summary Judgment. On February 28, 2012, the Company filed a Reply to the Government's Opposition to the Company's Motion for Partial Summary Judgment. The Company expects the Court to issue a ruling that may or may not be dispositive of the case. The Company can give no assurances as to the final amount of refunds, if any, or when they might be received. The accompanying financial statements exclude legal fees in connection with the Carryback Claims proceedings as these legal fees are payable pursuant to a contingency fee arrangement with the attorneys upon a final recovery received. See Note 9 – Income Taxes for further information.

#### Note 11 - Fair Value Measurements

The Company applies fair value standards for recurring financial assets and liabilities only. The accounting framework for determining fair value includes a hierarchy for ranking the quality and reliability of the information used to measure fair value, which enables the reader of the financial statements to assess the inputs used to develop those measurements. The fair value hierarchy consists of three tiers as follows:

- Level 1 – Quoted prices in active markets are available for identical assets and liabilities.
- Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The carrying amounts reported in the balance sheets for cash and cash equivalents are based on Level 1 criteria approximate fair value due to the short-term nature of these instruments. The fair value of investment securities - held to maturity and investment securities held for trading are based on current market quotations and therefore are based

on Level 2 criteria.

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| Exhibit # | Exhibit Title  |
|-----------|--|
| 23.       | Consent of Marcum LLP, Independent Registered Public Accounting Firm.                          |
| 31.1      | Rule 13a-14(a) Certification of Chief Executive Officer Pursuant to Rule 13a-14.               |
| 31.2      | Rule 13a-14(a) Certification of Chief Financial Officer Pursuant to Rule 13a-14.               |
| 32.1      | Section 1350 Certification of Chief Executive Officer pursuant to Rule 18 U.S.C. Section 1350. |
| 32.2      | Section 1350 Certification of Chief Financial Officer pursuant to Rule 18 U.S.C. Section 1350. |



Signatures

Pursuant to the requirements of Section 13 or 15(d) 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/RICHARD A. BIANCO  
Chairman, President and Chief Executive  
Officer (Principal Executive Officer)  
Date: January 4, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities on the dates indicated.

/s/RICHARD A. BIANCO  
Chairman, President,  
Chief Executive Officer and Director  
Date: January 4, 2013

/s/JOHN P. FERRARA  
Vice President, Chief Financial Officer  
and Controller  
(Principal Financial and Accounting Officer)  
Date: January 4, 2013

AMBASE CORPORATION AND SUBSIDIARIES  
 SCHEDULE III. REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2011

(dollars in thousands)

| COLUMN A                          | COLUMN B     | COLUMN C |  | COLUMN D  | COLUMN E |  |         |
|-----------------------------------|--------------|----------|--|---|----------|--|---------|
| Description                       | Encumbrances | Land     | Initial Cost<br>to Company<br>Building &<br>Improvements | Cost<br>Capitalized<br>Subsequent to<br>Acquisition<br>Improvements | Land     | Gross Amount at which<br>Carried<br>at the Close of the Period<br>Building &<br>Improvements | Total   |
| Office Building:<br>Greenwich, CT | \$ -         | \$554    | \$ 1,880   | \$ 20   | \$554    | \$ 1,900   | \$2,454 |
| Total                             | \$ -         | \$554    | \$ 1,880   | \$ 20   | \$554    | \$ 1,900   | \$2,454 |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| COLUMN A                          | COLUMN F                    | COLUMN G            | COLUMN H         | COLUMN I  |
|-----------------------------------|-----------------------------|---------------------|------------------|---|
| Description                       | Accumulated<br>Depreciation | Date<br>Constructed | Date<br>Acquired | Life on Which Depreciated Latest Income Statement |
| Office Building:<br>Greenwich, CT | \$ 533                      | 1970                | Apr.-01          | 39 years  |
| Total                             | \$ 533                      |                     |                  |   |

[a] Reconciliation of total real estate carrying value is as follows:

|   | Year<br>Ended<br>December<br>31, 2011 | Year<br>Ended<br>December<br>31, 2010 |
|---|---------------------------------------|---------------------------------------|
| Balance at beginning of year                            | \$ 2,454                              | \$ 2,454                              |
| Improvements  | -                                     | -                                     |
| Acquisitions  | -                                     | -                                     |
| Disposition   | -                                     | -                                     |
| Balance at end of year                                  | \$ 2,454                              | \$ 2,454                              |
| Total cost for federal tax purposes at end of each year | \$ 2,454                              | \$ 2,454                              |



[b] Reconciliation of accumulated depreciation as follows:

|                              |       |       |
|------------------------------|-------|-------|
| Balance at beginning of year | \$485 | \$436 |
| Depreciation expense         | 48    | 49    |
| Dispositions                 | -     | -     |
| Balance at end of year       | \$533 | \$485 |