

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-Q

GYRODYNE CO OF AMERICA INC  
Form 10-Q  
May 05, 2008

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended MARCH 31, 2008

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 0-1684

Gyrodyne Company of America, Inc.

-----  
(Exact name of registrant as specified in its charter)

New York

11-1688021

-----  
(State or other jurisdiction of incorporation or organization)

-----  
(IRS Employer Identification No.)

1 FLOWERFIELD, SUITE 24, ST. JAMES, NY

11780

-----  
(Address of principal executive offices)

-----  
(Zip Code)

(631) 584-5400  
(Registrant's telephone number)

-----  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No \_\_\_

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

Large accelerated filer   
Non-accelerated filer

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 X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

1,289,878 SHARES, \$1.00 PAR VALUE, AS OF APRIL 30, 2008

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INDEX TO QUARTERLY REPORT OF GYRODYNE COMPANY OF AMERICA, INC.  
 QUARTER ENDED MARCH 31, 2008

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PART I FINANCIAL INFORMATION  
 Item 1. Financial Statements.

GYRODYNE COMPANY OF AMERICA, INC.  
 AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS

| ASSETS           | March 31,   | December 31, |
|------------------|-------------|--------------|
| -----            | 2008        | 2007         |
|                  | (Unaudited) |              |
|                  | -----       | -----        |
| REAL ESTATE      |             |              |
| Rental property: |             |              |

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|   |               |               |
|---|---------------|---------------|
| Land  | \$ 2,303,017  | \$ 2,303,017  |
| Building and improvements   | 10,497,195    | 10,345,449    |
| Machinery and equipment   | 179,335       | 179,335       |
|   | -----         | -----         |
|   | 12,979,547    | 12,827,801    |
| Less accumulated depreciation   | 2,713,456     | 2,651,084     |
|   | -----         | -----         |
|   | 10,266,091    | 10,176,717    |
|   | -----         | -----         |
| Land held for development:  |               |               |
| Land  | 558,466       | 558,466       |
| Land development costs  | 815,109       | 781,426       |
|   | -----         | -----         |
|   | 1,373,575     | 1,339,892     |
|   | -----         | -----         |
| Total real estate, net  | 11,639,666    | 11,516,609    |
| Cash and Cash Equivalents   | 3,608,541     | 3,455,141     |
| Investment In Marketable Securities   | 9,930,627     | 10,816,269    |
| Rent Receivable, net of allowance for doubtful<br>accounts of \$17,000 and \$14,000, respectively                     | 102,745       | 94,693        |
| Interest Receivable   | 59,316        | 64,712        |
| Prepaid Expenses And Other Assets   | 410,169       | 352,477       |
| Prepaid Pension Costs   | 1,122,299     | 1,125,328     |
|   | -----         | -----         |
| Total Assets  | \$ 26,873,363 | \$ 27,425,229 |
|   | =====         | =====         |
| LIABILITIES AND STOCKHOLDERS' EQUITY  |               |               |
| -----   |               |               |
| LIABILITIES:  |               |               |
| Accounts payable  | \$ 218,036    | \$ 617,558    |
| Accrued liabilities   | 184,409       | 174,007       |
| Tenant security deposits payable  | 290,487       | 275,343       |
| Mortgage payable  | 5,481,305     | 5,502,623     |
| Deferred income taxes   | 7,832,000     | 7,832,000     |
|   | -----         | -----         |
| Total Liabilities   | 14,006,237    | 14,401,531    |
|   | -----         | -----         |
| Commitments And Contingencies   |               |               |
| STOCKHOLDERS' EQUITY:   |               |               |
| Common stock, \$1 par value; authorized 4,000,000<br>shares; 1,531,086 shares issued; 1,289,878<br>shares outstanding | 1,531,086     | 1,531,086     |
| Additional paid-in capital  | 7,978,395     | 7,978,395     |
| Accumulated Other Comprehensive Income:   |               |               |
| Unrealized Gain from Marketable Securities  | 119,490       | 148,415       |
| Balance of undistributed income other than gain<br>or loss on sales of properties                                     | 4,775,852     | 4,903,499     |
|   | -----         | -----         |
|   | 14,404,823    | 14,561,395    |
| Less cost of 241,208 shares of common stock held in treasury  | (1,537,697)   | (1,537,697)   |
|   | -----         | -----         |
| Total Stockholders' Equity  | 12,867,126    | 13,023,698    |
|   | -----         | -----         |
| Total Liabilities and Stockholders' Equity  | \$ 26,873,363 | \$ 27,425,229 |
|   | =====         | =====         |

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See notes to consolidated financial statements

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GYRODYNE COMPANY OF AMERICA, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

|  | Three Months Ended<br>March 31, |              |
|--|---------------------------------|--------------|
|  | 2008                            | 2007         |
| Revenues   |                                 |              |
| Rental Income  | \$ 660,867                      | \$ 286,859   |
| Interest Income  | 168,691                         | 382,634      |
|  | -----                           | -----        |
|  | 829,558                         | 669,493      |
|  | -----                           | -----        |
| Expenses   |                                 |              |
| Rental expenses  | 254,041                         | 200,258      |
| General and administrative expenses                      | 561,793                         | 665,251      |
| Depreciation   | 62,373                          | 15,217       |
| Interest expense   | 78,998                          | -            |
|  | -----                           | -----        |
|  | 957,205                         | 880,726      |
|  | -----                           | -----        |
| Loss from Operations Before Benefit for Income Taxes     | (127,647)                       | (211,233)    |
| Benefit for Income Taxes                                 | -                               | (25,805)     |
|  | -----                           | -----        |
| Net Loss   | \$ (127,647)                    | \$ (185,428) |
|  | =====                           | =====        |
| Net Loss Per Common Share:                               |                                 |              |
| Basic  | \$ (0.10)                       | \$ (0.15)    |
|  | =====                           | =====        |
| Diluted  | \$ (0.10)                       | \$ (0.15)    |
|  | =====                           | =====        |
| Weighted Average Number Of Common<br>Shares Outstanding: |                                 |              |
| Basic  | 1,289,878                       | 1,249,276    |
|  | =====                           | =====        |
| Diluted  | 1,289,878                       | 1,249,276    |
|  | =====                           | =====        |

See notes to consolidated financial statements

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GYRODYNE COMPANY OF AMERICA, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

Three Months Ended

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|   | March 31,<br>2008 | 2007         |
|---|-------------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                |                   |              |
| Net loss  | \$ (127,647)      | \$ (1,000)   |
| Adjustments to reconcile net loss to net cash used in operating activities: |                   |              |
| Depreciation and amortization   | 65,848            | 65,848       |
| Bad debt expense  | 6,000             | 6,000        |
| Net periodic pension benefit cost (income)                                  | 3,029             | 3,029        |
| Changes in operating assets and liabilities:                                |                   |              |
| (Increase) decrease in assets:  |                   |              |
| Land development costs  | (33,683)          | (33,683)     |
| Accounts receivable   | (14,052)          | (14,052)     |
| Interest receivable   | 5,396             | 5,396        |
| Prepaid expenses and other assets   | (56,742)          | (56,742)     |
| (Decrease) increase in liabilities:   |                   |              |
| Accounts payable  | (399,522)         | (399,522)    |
| Accrued liabilities   | 10,402            | 10,402       |
| Tenant security deposits  | 15,144            | 15,144       |
| Total adjustments   | (398,180)         | (398,180)    |
| Net cash used in operating activities                                       | (525,827)         | (525,827)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                |                   |              |
| Costs associated with property, plant and equipment                         | (156,172)         | (156,172)    |
| Proceeds from sale of marketable securities                                 | -                 | 3,000        |
| Principal repayments on investment in marketable securities                 | 856,717           | 856,717      |
| Net cash provided by investment activities                                  | 700,545           | 703,545      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                |                   |              |
| Principal payments on mortgage  | (21,318)          | (21,318)     |
| Proceeds from exercise of stock options                                     | -                 | -            |
| Net cash (used in) provided by financing activities                         | (21,318)          | (21,318)     |
| Net increase in cash and cash equivalents                                   | 153,400           | 153,400      |
| Cash and cash equivalents at beginning of period                            | 3,455,141         | 3,455,141    |
| Cash and cash equivalents at end of period                                  | \$ 3,608,541      | \$ 3,608,541 |
| Supplemental cash flow information:   |                   |              |
| Noncash Investing and Financing Activities:                                 |                   |              |
| Declared but unpaid cash distributions                                      | -                 | \$ 5,000     |

See notes to consolidated financial statements

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### FOOTNOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Basis of Quarterly Presentations:

The accompanying quarterly financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The financial statements of the Registrant included herein have been prepared by the Registrant pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, reflect all adjustments which are necessary to present fairly the results for the three month periods ended March 31, 2008 and 2007.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations; however, management believes that the disclosures are adequate to make the information presented not misleading.

This report should be read in conjunction with the audited financial statements and footnotes therein included in the Annual Report on Form 10-K for the year ended December 31, 2007.

The results of operations for the three month period ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year.

#### 2. Principle of Consolidation:

The accompanying consolidated financial statements include the accounts of Gyrodyne Company of America, Inc. ("Company") and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

#### 3. Investment in Marketable Securities:

The Company's marketable securities consist of debt securities classified as available-for-sale and are reported at fair value, with the unrealized gains and losses excluded from operating results and reported as a separate component of stockholders' equity net of the related tax effect. These debt securities consist of hybrid mortgage-backed securities fully guaranteed by agencies of the U.S. Government and are managed by and held in an account with a major financial institution.

#### 4. Earnings Per Share:

Basic earnings per common share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Dilutive earnings per share give effect to stock options and warrants which are considered to be dilutive common stock equivalents. Basic loss per common share was computed by dividing net loss by the weighted average number of shares of common stock outstanding. Diluted loss per common share does not give effect to the impact of options because their effect would have been anti-dilutive. Treasury shares have been excluded from the weighted average number of shares. As of March 20, 2007, all outstanding stock options were either exercised or expired.

#### 5. Income Taxes:

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

#### 6. Mortgage Payable:

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In June 2007, in connection with the purchase of the Port Jefferson Professional Park in Port Jefferson Station, New York, the Company assumed a \$5,551,191 mortgage payable to a bank (the "Mortgage"). The Mortgage bears interest at 5.75% through February 1, 2012 and adjusts to the higher of 5.75% or 275 basis points in excess of the Federal Home Loan Bank's five year Fixed Rate Advance ("Fixed Rate Advance") thereafter. The Mortgage is payable in monthly installments of principal and interest totaling \$33,439 through February 2012. From March 1, 2012 through February 1, 2022, the minimum monthly installment will be no less than \$33,439 and will vary based upon the Fixed Rate Advance. In February 2022, a balloon payment is due of approximately \$3,668,000. The Mortgage is collateralized by the Port Jefferson Professional Park.

### 7. Retirement Plans:

The Company records net periodic pension benefit cost pro rata throughout the year. The following table provides the components of net periodic pension benefit cost for the plan for the three months ended March 31, 2008 and 2007:

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|  | Three Months Ended<br>March 31, |             |
|--|---------------------------------|-------------|
|  | 2008                            | 2007        |
| Pension Benefits   |                                 |             |
| Service Cost   | \$ 23,314                       | \$ 30,348   |
| Interest Cost  | 33,493                          | 33,027      |
| Expected Return on Plan Assets   | (55,560)                        | (74,589)    |
| Amortization of Actuarial (Gain)/ Loss                                   | 1,782                           | -           |
|  | -----                           | -----       |
| Net Periodic Benefit Cost (Income) After<br>Curtailments and Settlements | \$ 3,029                        | \$ (11,214) |
|  | =====                           | =====       |

During the three months ended March 31, 2008 and 2007, the Company did not make a contribution to the plan. The Company has no minimum required contribution for the December 31, 2008 plan year.

### 8. Commitments and Contingencies:

Lease revenue commitments - The future minimum revenues from rental property under the terms of all noncancellable tenant leases, assuming no new or renegotiated leases are executed for such premises, for future years are approximately as follows:

| Twelve Months Ending March 31, | Amount       |
|--------------------------------|--------------|
| 2009                           | \$ 1,589,000 |
| 2010                           | 872,000      |
| 2011                           | 504,000      |
| 2012                           | 170,000      |
| 2013                           | 53,000       |
| Thereafter                     | 4,000        |
|                                | -----        |
|                                | \$ 3,192,000 |
|                                | =====        |

Employment agreements - The Company has employment contracts with two officers

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that provide for annual salaries aggregating approximately \$381,000 and a severance payment equivalent to three years salary and other benefits in the event of a change in control, termination by the Company without cause or termination by the officer for good reason.

Land consulting agreement - The Company retained Landmark National, commencing on March 1, 2007, in recognition of services rendered between 2004 and 2006, and for general consulting, review of pertinent documents, consultations regarding land planning and economic feasibility studies and coordination with project engineers associated with the Company's claim for additional compensation in its condemnation litigation (See Item 1: Legal Proceedings). The agreement provides for equal monthly payments of \$27,778 terminating on February 1, 2010.

### 9. Revolving Credit Note:

The Company's line of credit has a borrowing limit of \$1,750,000, bears interest at the lending institution's prime-lending rate (5.25 % at March 31, 2008) plus 1%, and is subject to certain financial covenants. The line is secured by certain real estate and expires on June 1, 2009. As of March 31, 2008 and December 31, 2007, \$1,750,000 was available under this agreement and the Company was in compliance with the financial covenants.

### 10. Recent Accounting Pronouncements:

In March 2008, the Financial Accounting Standards Board ("FASB") issued FAS 161, "Disclosures about Derivative Instruments and Hedging Activities--an amendment of FASB Statement No. 133". This Statement applies to all entities. This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company does not believe this pronouncement will have a material effect on its financial statements.

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### 11. Special Distributions:

On March 13, 2007 the Board of Directors declared a special distribution in the amount of \$4.00 per share payable on April 9, 2007 for all shareholders of record on March 26, 2007.

### 12. Subsequent Event:

On April 17, 2008, the Company announced that it has agreed to purchase the Cortlandt Medical Center (the "Center"), in Cortlandt Manor, New York for a purchase price of \$7 million.

To secure the purchase of this property, the Company made a \$500,000 security deposit on April 16, 2008.

This transaction qualifies for tax deferral treatment under Section 1033 of the Internal Revenue Code and is also a qualified REIT Investment.



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

The statements made in this Form 10-Q that are not historical facts contain "forward-looking information" within the meaning of the Private Securities Litigation Reform Act of 1995, and Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended, which can be identified by the use of forward-looking terminology such as "may," "will," "anticipates," "expects," "projects," "estimates," "believes," "seeks," "could," "should," or "continue," the negative thereof, other variations or comparable terminology. Important factors, including certain risks and uncertainties, with respect to such forward-looking statements that could cause actual results to differ materially from those reflected in such forward-looking statements include, but are not limited to, the effect of economic and business conditions, including risks inherent in the Long Island, New York and Palm Beach County, Florida real estate markets, the ability to obtain additional capital in order to develop the existing real estate, uncertainties associated with the Company's litigation against the State of New York for just compensation for the Flowerfield property taken by eminent domain, and other risks detailed from time to time in the Company's SEC reports. The Company assumes no obligation to update the information in this Form 10-Q. We qualify all of our forward-looking statements by the foregoing cautionary statements.

#### Critical Accounting Policies

-----

The consolidated financial statements of the Company include accounts of the Company and all majority-owned and controlled subsidiaries. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the Company's consolidated financial statements and related notes. In preparing these financial statements, management has utilized information available including its past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments of certain amounts included in the consolidated financial statements, giving due consideration to materiality. It is possible that the ultimate outcome as anticipated by management in formulating its estimates inherent in these financial statements might not materialize. However, application of the critical accounting policies below involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies may utilize different estimates, which may impact comparability of the Company's results of operations to those of companies in similar businesses.

#### Revenue Recognition

-----

Rental revenue is recognized on a straight-line basis, which averages minimum rents over the terms of the leases. The excess of rents recognized over amounts contractually due, if any, is included in deferred rents receivable on the Company's balance sheets. Certain leases also provide for tenant reimbursements of common area maintenance and other operating expenses and real estate taxes. Ancillary and other property related income is recognized in the period earned.

#### Real Estate

-----

Rental real estate assets, including land, buildings and improvements, furniture, fixtures and equipment are recorded at cost. Tenant improvements, which are included in buildings and improvements, are also stated at cost. Expenditures for ordinary maintenance and repairs are expensed to operations as they are incurred. Renovations and/or replacements, which improve or extend the

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life of the asset, are capitalized and depreciated over their estimated useful lives.

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Depreciation is computed utilizing the straight-line method over the estimated useful life of ten to thirty nine years for buildings and improvements and three to twenty years for machinery and equipment.

The Company is required to make subjective assessments as to the useful life of its properties for purposes of determining the amount of depreciation to reflect on an annual basis with respect to those properties. These assessments have a direct impact on the Company's net income. Should the Company lengthen the expected useful life of a particular asset, it would be depreciated over more years, and result in less depreciation expense and higher annual net income.

Real estate held for development is stated at the lower of cost or net realizable value. In addition to land, land development and construction costs, real estate held for development includes interest, real estate taxes and related development and construction overhead costs which are capitalized during the development and construction period. Net realizable value represents estimates, based on management's present plans and intentions, of sale price less development and disposition cost, assuming that disposition occurs in the normal course of business.

### Long Lived Assets

-----

On a periodic basis, management assesses whether there are any indicators that the value of the real estate properties may be impaired. A property's value is impaired only if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property is less than the carrying value of the property. Such future cash flow estimates consider factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. To the extent impairment occurs, the loss will be measured as the excess of the carrying amount of the property over the fair value of the property.

The Company is required to make subjective assessments as to whether there are impairments in the value of its real estate properties and other investments. These assessments have a direct impact on the Company's net income, since an impairment charge results in an immediate negative adjustment to net income. In determining impairment, if any, the Company has adopted Financial Accounting Standards Board ("FASB") Statement No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets."

### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AS COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2007

The Company is reporting a net loss of \$127,647 for the three month period ending March 31, 2008 compared to a loss of \$185,428 for the same period of the prior year. Diluted per share losses amounted to \$(0.10) and \$(0.15) for the 2008 and 2007 first quarters, respectively.

Revenues increased by \$160,065 totaling \$829,558 compared to \$669,493 during the prior year. Reflecting the June 2007 acquisition of the Port Jefferson Professional Park and an improvement in the Flowerfield operation, rental income totaled \$660,867, an increase of \$374,008 over the 2007 results of \$286,859. Port Jefferson accounted for \$255,179 of the increase while Flowerfield experienced a \$118,829 (41%) increase for the quarter. As of the beginning of

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the quarter, Port Jefferson and Flowerfield had occupancy rates of 97% and 90%, respectively. Interest income totaled \$168,691, a decline of \$213,943 when compared to the 2007 total of \$382,634. The decrease is due to a reduced amount of investments in marketable securities coupled with lower interest rates. The reduction in investment activities is primarily the result of our use of funds to acquire the Port Jefferson facility and a cash distribution to shareholders which, when combined, amounted to approximately \$8.5 million.

Expenses increased by \$76,479 for the current quarter, amounting to \$957,205 compared to \$880,726 during the prior year. With the exception of general and administrative expenses declining by \$103,458, the Company experienced increases in rental expenses, depreciation, and interest expense amounting to \$53,783, \$47,156, and \$78,998, respectively. General and administrative expenses reflect decreases in legal and consulting fees totaling \$124,619 as well as decreases of \$13,558 and \$12,646 in fees for outside services and accounting fees, respectively. These were partially offset by increased expenses of \$25,923 associated with our condemnation litigation, \$13,713 in pension plan expenses, and \$8,622 in salaries and benefits. Rental expenses increased by \$53,783 primarily due to the June 2007 acquisition of the Port Jefferson facility. Rental expenses for Port Jefferson totaled \$75,025 for the current quarter and were offset by a decline in Flowerfield expenses of \$21,242. Likewise, the increases in depreciation and interest expense are attributable to the acquisition of the Port Jefferson property in 2007.

As a result, the Company is reporting a loss from operations totaling \$127,647 compared to the 2007 results when the loss amounted to \$211,233. In 2007, a benefit for income taxes of \$25,805 reduced the net loss for the quarter to \$185,428 compared to a net loss of \$127,647 for the current reporting period.

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### LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was \$525,827 and \$2,629,719 during the three months ended March 31, 2008 and 2007, respectively. The cash used in operating activities in the current period was primarily related to increased payments to vendors of \$399,522. The cash used in operating activities in the prior period was primarily related to the payment of \$2,000,000 to Landmark in connection with an agreement to terminate two agreements, the Golf Operating Agreement and the Asset Management Agreement, both dated April 9, 2002.

Net cash provided by investing activities was \$700,545 and \$6,262,393 during the three months ended March 31, 2008 and 2007, respectively. Cash provided by investing activities in the current period was primarily related to principal repayments of marketable securities of \$856,717. The cash provided by investing activities in the prior period was primarily related to the sale and principal repayments of marketable securities for \$3,462,037 and \$2,919,315, respectively.

Net cash (used in) provided by financing activities was \$(21,318) and \$76,050 during the three months ended March 31, 2008 and 2007, respectively. The net cash used in financing activities in the current period was in connection with principal payments on the mortgage. The net cash provided during the prior period was the result of proceeds from the exercise of stock options.

The Company has a \$1,750,000 revolving credit line with a bank, bearing interest at a rate of prime plus one percent which was 6.25% at March 31, 2008. The unused portion of the credit line, which is the total line of \$1,750,000, will enhance the Company's financial position and liquidity and be available, if needed, to fund any unforeseen expenses.

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As of March 31, 2008, the Company had cash and cash equivalents of \$3,608,541 and anticipates having the capacity to fund normal operating, general and administrative expenses, and its regular debt service requirements.

### LIMITED PARTNERSHIP INVESTMENT

Our limited partnership investment in the Callery Judge Grove, LP (the "Grove") is carried on the Company's balance sheet at \$0 as a result of recording losses equal to the carrying value of the investment. This investment represents a 10.93% ownership interest in a limited partnership that owns a 3500+ acre citrus grove in Palm Beach County, Florida. The Grove is the subject of a development plan consisting of 2,996 residential units and 235,000 square feet of mixed commercial, retail, and office space. The plan recently was recommended for approval by the Palm Beach County Planning Commission and subsequently, on April 29, 2008, received the endorsement of the Palm Beach County Board of Commissioners. The proposal will now be reviewed by the State Department of Community Affairs before coming back to the County Commission for a final approval.

### (c) OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial conditions, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

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

Not required for smaller reporting companies.

### Item 4. CONTROLS AND PROCEDURES

We maintain a set of disclosure controls and procedures designed to reasonably assure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Disclosure controls are also designed reasonably to assure that information required to be disclosed is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer. The evaluation of our disclosure controls performed by our Chief Executive Officer and Chief Financial Officer included obtaining an understanding of the design and objective of the controls, the implementation of those controls and the results of the controls on this report on Form 10-Q. In the course of the evaluation of disclosure controls, we reviewed the controls that are in place to record, process, summarize and report, on a timely basis, matters that require disclosure in our reports filed under the Exchange Act. We also considered the adequacy of the items disclosed in this report on Form 10-Q.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2008. Based upon that evaluation, each of the Company's Chief Executive Officer and Chief Financial Officer has concluded that the disclosure controls and procedures were effective, in all material respects, to provide reasonable assurance that information required to be disclosed in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. It should be noted that design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions regardless of how remote.

There have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rule 13a-15 that occurred during the Company's last fiscal quarter that has materially affected, or that is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Gyrodyne Company of America, Inc. v. The State University of New York at Stony  
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Brook  
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On November 2, 2005, the State University of New York at Stony Brook (the "University") filed an acquisition map with the Suffolk County Clerk's office and vested title in 245.5 acres of the Company's Flowerfield property pursuant to the New York Eminent Domain Procedure Law (the "EDPL"). On March 27, 2006, the Company received payment from the State of New York in the amount of \$26,315,000, which the Company had previously elected under the EDPL to accept as an advance payment for the Property. Under the EDPL, both the advance payment and any additional award from the Court of Claims bear interest at the current statutory rate of 9% simple interest from the date of the taking through the date of payment.

Notwithstanding the foregoing, although the Company had been assured by counsel for the State that the statutory interest rate of 9% was due and payable on the advance payment, the State of New York has taken the position that a lesser interest rate was applicable. As a result, the Company reversed an interest receivable amounting to \$332,377 as of December 31, 2007 and plans on pursuing the loss of interest in its claim for additional compensation.

On May 1, 2006, the Company filed a Notice of Claim with the Court of Claims of the State of New York seeking \$158 million in damages from the University resulting from the condemnation of the 245.5 acres of the Company's Flowerfield property. While the Company believes that a credible case for substantial additional compensation can be made, it is possible that the Company may be awarded a different amount than is being requested, including no compensation, or an amount that is substantially lower than the Company's claim for \$158 million. It is also possible that the Court of Claims could ultimately permit the State to recoup part of its advance payment to the Company.

The current deadline to exchange appraisals is set for May 6, 2008; however, the State has given indication that they will request an extension of this deadline from the Court.

Faith Enterprises v. Gyrodyne, Supreme Court, Suffolk County, Index # 3511/2007.  
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Faith Enterprises ("Faith") a tenant at 7 Flowerfield failed to fulfill its rental payment obligation. In February 2007, the Company served Faith with a notice of default. Faith subsequently sued the Company in Suffolk Supreme Court, seeking \$7 million in damages on each of three claims (breach of contract, fraudulent inducement and tortious interference with business) and also seeking to enjoin the Company from commencing a non-payment eviction proceeding (which the Court denied). The Company thereafter commenced a non-payment proceeding, in

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which Faith agreed to an order to vacate the premises and for a judgment of past due rent of \$115,051. Faith vacated the premises in April 2007. Faith continues to pursue its claims for damages in the Suffolk Supreme Court action. In November 2007, the Company commenced a third-party action against the guarantors of Faith's lease, Thomas O. Dodge, Cathleen Dodge, Michael Maurer and Kelly Maurer. In January 2008, Plaintiff (Faith) filed a motion to consolidate this case with another matter it had commenced against the entities from whom Faith purchased the business, which was granted on March 28, 2008. The Court also scheduled a conference on the matter for June 5, 2008.

In addition, in the normal course of business, the Company is a party to various legal proceedings. After reviewing all actions and proceedings pending against or involving the Company, Management considers the aggregate loss, if any, will not be material.

Items 2 through 5 are not applicable to the three months ended March 31, 2008.

Item 6. Exhibits.

- 3.1 Restated Certificate of Incorporation of Gyrodyne Company of America, Inc. (1)
- 3.2 Restated Bylaws of Gyrodyne Company of America, Inc. (3)
- 4.1 Form of Stock Certificate of Gyrodyne Company of America, Inc. (1)

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- 4.2 Rights Agreement, dated as of August 10, 2004, by and between Gyrodyne Company of America, Inc. and Registrar and Transfer Company, as Rights Agent, including as Exhibit B the forms of Right Certificate and of Election to Exercise. (2)
  - 31.1 Rule 13a-14(a)/15d-14(a) Certification. (4)
  - 32.1 CEO/CFO Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (4)
- (1) Incorporated herein by reference to the Annual Report on Form 10-KSB/A, filed with the Securities and Exchange Commission on September 5, 2001.
  - (2) Incorporated herein by reference to Form 8-K, filed with the Securities and Exchange Commission on August 13, 2004.
  - (3) Incorporated herein by reference to the Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 15, 2007.
  - (4) Filed as part of this report.

### SIGNATURES

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

GYRODYNE COMPANY OF AMERICA, INC.

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Date: May 5, 2008 /S/ Stephen V. Maroney  
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By Stephen V. Maroney  
President, Chief Executive Officer and Treasurer

Date: May 5, 2008 /S/ Frank D'Alessandro  
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By Frank D'Alessandro  
Controller

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### Exhibit Index

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