

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

GYRODYNE CO OF AMERICA INC

Form 10-Q

August 11, 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 JUNE 30, 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) (I.R.S. Employer Identification No.)

1 FLOWERFIELD, SUITE 24, ST. JAMES, NY 11780

(Address of principal executive offices)

(631) 584-5400

(Registrant's telephone number, including area code)

(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 a 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  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 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 JULY 31, 2008

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

Seq. Page 1

INDEX TO QUARTERLY REPORT OF GYRODYNE COMPANY OF AMERICA, INC.  
 QUARTER ENDED JUNE 30, 2008

	Seq. Page
Form 10-Q Cover	1
Index to Form 10-Q	2
PART I - FINANCIAL INFORMATION	3
Item 1. Financial Statements.	3
Consolidated Balance Sheets (unaudited)	3
Consolidated Statements of Operations (unaudited)	4
Consolidated Statements of Cash Flows (unaudited)	5
Footnotes to Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	8
Item 3. Quantitative and Qualitative Disclosures About Market Risk.	11
Item 4T. Controls and Procedures.	11
PART II - OTHER INFORMATION	11
Item 1. Legal Proceedings.	11
Item 6. Exhibits.	12
SIGNATURES	13
Exhibit Index	14

Seq. Page 2

PART I - FINANCIAL INFORMATION  
 Item 1. Financial Statements.

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

ASSETS -----	June 30, 2008 (Unaudited) -----	December 31, 2007 -----
REAL ESTATE		
Rental property:		
Land	\$ 2,903,017	\$ 2,303,017
Building and improvements	17,098,914	10,345,449

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

Machinery and equipment	179,335	179,335
	-----	-----
	20,181,266	12,827,801
Less accumulated depreciation	2,791,331	2,651,084
	-----	-----
	17,389,935	10,176,717
	-----	-----
Land held for development:		
Land	558,466	558,466
Land development costs	925,709	781,426
	-----	-----
	1,484,175	1,339,892
	-----	-----
Total real estate, net	18,874,110	11,516,609
Cash and Cash Equivalents	2,464,408	3,455,141
Investment In Marketable Securities	8,665,542	10,816,269
Rent Receivable, net of allowance for doubtful accounts of \$43,000 and \$14,000, respectively	123,506	94,693
Interest Receivable	51,204	64,712
Prepaid Expenses And Other Assets	783,556	352,477
Prepaid Pension Costs	1,119,270	1,125,328
	-----	-----
Total Assets	\$ 32,081,596	\$ 27,425,229
	=====	=====
 LIABILITIES AND STOCKHOLDERS' EQUITY		
-----		
LIABILITIES:		
Accounts payable	\$ 224,348	\$ 617,558
Accrued liabilities	210,049	174,007
Tenant security deposits payable	404,090	275,343
Mortgage payable	10,709,679	5,502,623
Deferred income taxes	5,032,000	7,832,000
	-----	-----
Total Liabilities	16,580,166	14,401,531
	-----	-----
 Commitments And Contingencies		
 STOCKHOLDERS' EQUITY:		
Common stock, \$1 par value; authorized 4,000,000 shares; 1,531,086 shares issued; 1,289,878 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	111,083	148,415
Balance of undistributed income other than gain or loss on sales of properties	7,418,563	4,903,499
	-----	-----
	17,039,127	14,561,395
	-----	-----
Less cost of 241,208 shares of common stock held in treasury	(1,537,697)	(1,537,697)
	-----	-----
Total Stockholders' Equity	15,501,430	13,023,698
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 32,081,596	\$ 27,425,229
	=====	=====

See notes to consolidated financial statements

Seq. Page 3

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

	Six Months Ended June 30,		Three Months Ended June 30,	
	2008	2007	2008	2007
Revenues				
Rental Income	\$ 1,424,191	\$ 600,963	\$ 763,324	\$ 600,963
Interest Income	310,695	651,399	142,004	651,399
	-----	-----	-----	-----
	1,734,886	1,252,362	905,328	1,252,362
	-----	-----	-----	-----
Expenses				
Rental expenses	530,569	391,577	276,528	391,577
General and administrative expenses	1,171,400	1,402,942	609,607	1,402,942
Depreciation	140,247	30,904	77,875	30,904
Interest expense	177,606	3,514	98,607	3,514
	-----	-----	-----	-----
	2,019,822	1,828,937	1,062,617	1,828,937
	-----	-----	-----	-----
Loss from Operations Before Benefit for Income Taxes	(284,936)	(576,575)	(157,289)	(576,575)
Benefit for Income Taxes	(2,800,000)	(825,989)	(2,800,000)	(825,989)
	-----	-----	-----	-----
Net Income	\$ 2,515,064	\$ 249,414	\$ 2,642,711	\$ 249,414
	=====	=====	=====	=====
Net Income Per Common Share:				
Basic	\$ 1.95	\$ 0.20	\$ 2.05	\$ 0.20
	=====	=====	=====	=====
Diluted	\$ 1.95	\$ 0.20	\$ 2.05	\$ 0.20
	=====	=====	=====	=====
Weighted Average Number Of Common Shares Outstanding:				
Basic	1,289,878	1,269,689	1,289,878	1,269,689
	=====	=====	=====	=====
Diluted	1,289,878	1,269,689	1,289,878	1,269,689
	=====	=====	=====	=====

See notes to consolidated financial statements

Seq. Page 4

GYRODYNE COMPANY OF AMERICA, INC.

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

## AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Mon Jun ----- 2008 -----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net income	\$ 2,515,064
-----	
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	147,272
Bad debt expense	32,000
Net periodic pension benefit cost (income)	6,058
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Land development costs	(144,283)
Accounts receivable	(60,813)
Interest receivable	13,508
Prepaid expenses and other assets	(304,823)
(Decrease) increase in liabilities:	
Accounts payable	(393,210)
Accrued liabilities	36,042
Deferred income taxes	(2,800,000)
Tenant security deposits	128,747
	-----
Total adjustments	(3,339,502)
	-----
Net cash used in operating activities	(824,438)
	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of medical office buildings	(7,014,362)
Costs associated with property, plant and equipment	(343,529)
Proceeds from sale of marketable securities	-
Deposit on property	-
Principal repayments on investment in marketable securities	2,113,395
	-----
Net cash (used in) provided by investment activities	(5,244,496)
	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Proceeds from mortgage	5,250,000
Principal payments on mortgage	(42,944)
Cash distribution payment	-
Loan origination fees	(128,855)
Proceeds from exercise of stock options	-
	-----
Net cash provided by (used in) financing activities	5,078,201
	-----
Net (decrease) increase in cash and cash equivalents	(990,733)
Cash and cash equivalents at beginning of period	3,455,141
	-----
Cash and cash equivalents at end of period	\$ 2,464,408
	=====

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

Supplemental cash flow information:

Interest paid	\$ 177,606
	=====
Cash distributions paid	\$ -
	=====
Mortgage payable - assumed	\$ -
	=====

See notes to consolidated financial statements

Seq. Page 5

### 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 and six month periods ended June 30, 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 and six month periods ended June 30, 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

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

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. Mortgages Payable:

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 "Port Jefferson Mortgage"). The Port Jefferson 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 Port Jefferson 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 Port Jefferson Mortgage is collateralized by the Port Jefferson Professional Park.

In June 2008, in connection with the purchase of the Cortlandt Manor Medical Center in Cortlandt Manor, New York, the Company entered into a \$5,250,000 mortgage agreement with a bank (the "Cortlandt Mortgage"). The Cortlandt Mortgage bears interest at a per annum rate of 225 basis points above the one month LIBOR rate (4.71% at inception) through July 1, 2018, subject to monthly adjustment. The Cortlandt Mortgage is payable in monthly installments with a fixed principal payment of \$17,500 through June, 1 2018. In July 2018, a balloon payment is due of approximately \$3,168,000. The Cortlandt Mortgage is collateralized by the Cortlandt Manor Medical Center.

Seq. Page 6

### 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 and six months ended June 30, 2008 and 2007:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2008	2007	2008	2007
Pension Benefits				
Service Cost	\$ 46,629	\$ 60,696	\$ 23,315	\$ 30,34
Interest Cost	66,987	66,054	33,494	33,02
Expected Return on Plan Assets	(111,120)	(149,178)	(55,560)	(74,58
Amortization of Actuarial Loss	3,563	-	1,781	

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

Net Periodic Benefit Cost (Income) After Curtailments and Settlements	\$ 6,059	\$ (22,428)	\$ 3,030	\$ (11,211)
	=====	=====	=====	=====

During the six months ended June 30, 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 June 30,	Amount
-----	
2009	\$ 2,295,000
2010	1,523,000
2011	826,000
2012	271,000
2013	145,000
Thereafter	80,000
	-----
	\$ 5,140,000
	=====

Employment agreements - The Company has employment contracts with two officers that provide for annual salaries aggregating approximately \$397,000 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 (5.00 % at June 30, 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 June 30, 2008 and December 31, 2007, \$1,750,000 was available under this agreement and the Company was in compliance with the financial covenants.

Seq. Page 7

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



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

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.

### 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. Acquisition of Properties:

On June 2, 2008, the Company acquired the Cortlandt Manor Medical Center in Cortlandt Manor, New York (the "Property") from Cortlandt Building Associates, LLC (the "Seller"). The Property consists of five office buildings which are situated on 5.01 acres with approximately 29,800 square feet of rentable space and a current occupancy rate of 97%. The purchase price was \$7 million or \$234.81 per square foot. The aggregate monthly rent flow from the Property is approximately \$85,000. There is no material relationship between the Company and the Seller. Of the \$7 million purchase price for the Property, the Company paid \$1,750,000 in cash upon the signing of the contract to acquire the Property and received financing in the amount of \$5,250,000 from M&T Bank. Approximately \$14,362 of costs associated with the acquisition was capitalized. The purchase price was allocated as follows:

Land	\$ 600,000
Buildings	\$ 6,414,362
Mortgage payable	\$ (5,250,000)
Cash	\$ 1,764,362

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

### 13. Reclassifications:

Certain reclassifications have been made to the consolidated statement of cash flows for the six months ended June 30, 2007 to conform to the classification used in the current fiscal year.

## 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

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

include, but are not limited to, the effect of economic and business conditions, including risks inherent in the Long Island, Metropolitan 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.

Seq. Page 8

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

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

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

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 AND SIX MONTHS ENDED JUNE 30, 2008 AS COMPARED TO THE THREE AND SIX MONTHS ENDED JUNE 30, 2007

The Company is reporting net income totaling \$2,642,711 for the three month period ended June 30, 2008 compared to net income totaling \$434,842 for the same period last year. Both reporting periods reflect a benefit for income taxes resulting from the reinvestment of condemnation proceeds and the deferral of tax pursuant to Section 1033 of the Internal Revenue Code. Those benefits amounted to \$2,800,000 and \$725,000 for 2008 and 2007, respectively. In 2007, the Company also recognized a \$75,184 benefit for a prior year tax refund. For the six month period ended June 30, 2008, the Company is reporting net income totaling \$2,515,064 as compared to net income totaling \$249,414 for the same period of the prior year. Again, the benefit for income taxes is primarily related to the reinvestment of condemnation proceeds. Per share earnings for the three and six month periods ended June 30, 2008 amounted to \$2.05 and \$1.95, respectively, compared to \$0.34 and \$0.20 for the same periods during the prior year, respectively.

Seq. Page 9

Revenues increased by 55% for the current quarter, totaling \$905,328 compared to \$582,869 during the same period last year. This \$322,459 increase is attributable to the previously announced acquisitions of the Port Jefferson Professional Park and Cortlandt Manor Medical Center as well as significant improvement in the Saint James Flowerfield rental operation. The Port Jefferson

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

property was acquired on June 27, 2007 and the Cortlandt Manor center on June 2, 2008. As a result, operations at the Cortlandt Manor facility are only reflected for one month in the current reporting period. Combined, the three properties reflect an increase in rental revenue of 143%, totaling \$763,324 for the current quarter as compared to \$314,104 for the same period last year. This increase of \$449,220 is comprised of the improvement at the Flowerfield property amounting to \$124,268 and \$250,965 and \$73,987 from Port Jefferson and Cortlandt Manor, respectively. Interest income declined by \$126,761 from \$268,765 for the three months ended June 30, 2007 compared to \$142,004 for the three months ended June 30, 2008. This decrease is attributable to a combination of the use of funds to support the aforementioned real estate acquisitions and lower prevailing interest rates. For the six month period ended June 30, 2008, revenues totaled \$1,734,886, a 39% increase over the \$1,252,362 recorded during the same period last year. Here again, rental revenues increased by 137% totaling \$1,424,191 compared to \$600,963 for the prior year. As in the case of the quarterly results, the \$823,228 increase is also attributable to the improvement at Flowerfield, which amounted to \$243,097 and \$506,144 and \$73,987 from the Port Jefferson and Cortlandt Manor properties, respectively. Interest income declined by \$340,704, amounting to \$310,695 and \$651,399 for the six month periods ended June 30, 2008 and 2007, respectively.

Expenses increased by \$114,406, amounting to \$1,062,617 for the current quarter compared to \$948,211 during the same period last year. Reflecting the two newly acquired properties in Port Jefferson and Cortlandt Manor, rental expenses, depreciation, and interest expense all increased when compared to the prior year for both the three and six month reporting periods. Likewise for both periods, general and administrative expenses declined when compared to the prior year results despite increases in condemnation litigation expenses. For the three months ended June 30, 2008, rental expenses increased by \$85,208, depreciation increased by \$62,188, and interest expenses increased by \$95,093. As a result of reductions in fees for outside services, legal expenses, salaries and benefits, and corporate governance issues, general and administrative expenses decreased by \$128,083. For the six months ended June 30, 2008, expenses increased by \$190,885, totaling \$2,019,822 compared to \$1,828,937 during the same period last year. Rental expenses, depreciation, and interest expense increased by \$138,992, \$109,343, and \$174,092, respectively. Mirroring the cost reductions experienced in the three month period, general and administrative expenses decreased by \$231,542 for the six months ended June 30, 2008.

As a result of the foregoing, the Company is reporting losses from operations before benefit for income taxes of \$157,289 for the current quarter ended June 30, 2008 and \$284,936 for the six months then ended. A major contributing factor towards the current year operating losses is the fact that expenses associated with the condemnation litigation amounted to \$121,355 and \$208,421 for the three and six month periods, respectively. For the three and six month periods of the prior year, the Company experienced losses from operations before benefit for income taxes of \$365,342 and \$576,575, respectively, which also include condemnation litigation expenses totaling \$114,620 and \$175,763, respectively.

### LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was \$824,438 and \$3,035,926 during the six months ended June 30, 2008 and 2007, respectively. The cash used in operating activities in the current period was primarily related to increased payments to vendors of \$393,210 and the prepayment of expenses and other assets of \$304,823. 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. There were also increased payments to vendors of \$473,855.

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

Net cash (used in) provided by investing activities was \$(5,244,496) and \$8,377,225 during the six months ended June 30, 2008 and 2007, respectively. Cash used in investing activities in the current period primarily consisted of the purchase of the Cortlandt Manor Medical Center for \$7,014,362 partially offset by principal repayments of marketable securities of \$2,113,395. The cash provided by investing activities in the prior period was in connection with the sale and principal repayments of marketable securities of \$7,199,204 and \$4,283,033, respectively. This was partially offset by costs associated with the purchase of the Port Jefferson Professional Park, net of an assumed mortgage and deposit on property, for \$2,859,153.

Net cash provided by (used in) financing activities was \$5,078,201 and \$(5,203,146) during the six months ended June 30, 2008 and 2007, respectively. The net cash provided by financing activities in the current period was primarily in connection with obtaining a mortgage of \$5,250,000 for the purchase of the Cortlandt Manor Medical Center. The net cash used during the prior period was principally the result of a cash distribution payment of \$5,160,157.

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 6.00% at June 30, 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 is available, if needed, to fund any unforeseen expenses.

As of June 30, 2008, the Company had cash and cash equivalents of \$2,464,408 and anticipates having the capacity to fund normal operating, general and administrative expenses, and its regular debt service requirements.

Seq. Page 10

### 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 being returned to the County Planning Commission for a final approval.

### 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 4T. CONTROLS AND PROCEDURES.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure

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

controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2008. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer 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  
-----  
Brook  
-----

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 (the "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.

On July 29, 2008, and in response to a motion made by the State, the Court issued an Order granting the State's motion for an extension of the deadline to exchange appraisals to November 10, 2008 as the final date for submission of appraisals. The Court also ordered that no further applications for an adjournment of the appraisal deadline will be accepted.

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

Seq. Page 11

Faith Enterprises v. Gyrodyne, Supreme Court, Suffolk County, Index # 3511/2007.

-----

Faith Enterprises ("Faith") a prior 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 inter alia \$7 million in damages on each of three claims (breach of contract, fraudulent inducement and tortious interference with business). In November 2007, the Company commenced a third-party action against the guarantors of Faith's lease, Thomas O. Dodge, et. al. In January 2008, Faith filed a motion to consolidate the entire case with another matter it and its affiliate Hitter, D.C., LLC ("Hitter") commenced against the entities from which they purchased the business operated at 7 Flowerfield and another location, which was granted on March 28, 2008. In May 2008, Hitter filed bankruptcy. In June 2008, Hitter filed a notice of removal of its case against the sellers of the business to the bankruptcy court for adjudication. This did not affect the case Faith commenced against the Company or the Company's third-party complaint against the guarantors, which remain in the Suffolk Supreme Court.

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 June 30, 2008.

Item 6. Exhibits.

- 3.1 Restated Certificate of Incorporation of Gyrodyne Company of America, Inc. (1)
  - 3.2 Amended and Restated Bylaws of Gyrodyne Company of America, Inc. (2)
  - 4.1 Form of Stock Certificate of Gyrodyne Company of America, Inc. (1)
  - 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. (3)
  - 10.1 Contract of sale dated April 17, 2008 with Cortlandt Building Associates, LLC (4)
  - 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 June 18, 2008.
- (3) Incorporated herein by reference to Form 8-K, filed with the Securities and Exchange Commission on August 13, 2004.

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

(4) Filed as part of this report.

Seq. Page 12

SIGNATURES

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

GYRODYNE COMPANY OF AMERICA, INC.

Date: August 8, 2008

/s/ Stephen V. Maroney  
-----

By Stephen V. Maroney  
President, Chief Executive Officer and  
Treasurer

Date: August 8, 2008

/s/ Frank D'Alessandro  
-----

By Frank D'Alessandro  
Controller

Seq. Page 13

Exhibit Index

- 3.1 Restated Certificate of Incorporation of Gyrodyne Company of America, Inc. (1)
  - 3.2 Amended and Restated Bylaws of Gyrodyne Company of America, Inc. (2)
  - 4.1 Form of Stock Certificate of Gyrodyne Company of America, Inc. (1)
  - 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. (3)
  - 10.1 Contract of sale dated April 17, 2008 with Cortlandt Building Associates, LLC (4)
  - 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 June 18, 2008.
- (3) Incorporated herein by reference to Form 8-K, filed with the Securities and Exchange Commission on August 13, 2004.



(4) Filed as part of this report.

Seq. Page 14