

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

GYRODYNE CO OF AMERICA INC

Form 10-K/A

February 18, 2009

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-K/A

Amendment No. 1

(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, 2007

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 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)

(Zip Code)

Registrant's telephone number, including area code (631) 584-5400

Securities registered pursuant to Section 12(b) of the Act: NONE

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

COMMON STOCK, \$1.00 PAR VALUE

(Title of Class)

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

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

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 this Form 10-K.

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.

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

Large accelerated filer []
Non-accelerated filer []

Accelerated filer []
Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [] No [X]

The aggregate market value of voting common stock held by non-affiliates of the registrant on June 30, 2007 was \$32,718,260. The aggregate market value was computed by reference to the closing price on such date of the common stock as reported on the NASDAQ Stock Market. Shares of common stock held by each executive officer and director and by each person who to the registrant's knowledge owns 5% or more of the outstanding voting stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

On February 18, 2008 1,289,878 shares of the Registrant's common stock, par value \$1 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

1

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A amends the original Report on Form 10-K of Gyrodyne Company of America, Inc. for the fiscal year ended December 31, 2007, filed with the Securities and Exchange Commission on March 28, 2008, to add certain information required on Form 10-K:

Report of Independent Registered Public Accounting Firm signature.

GYRODYNE COMPANY OF AMERICA, INC. AND SUBSIDIARIES

REPORT ON AUDITS OF CONSOLIDATED
FINANCIAL STATEMENTS

Years Ended December 31, 2007 and 2006

GYRODYNE COMPANY OF AMERICA, INC
AND SUBSIDIARIES

Contents

Years Ended December 31, 2007 and 2006 Pages

Report of Independent Registered Public Accounting Firm F-1

Consolidated Balance Sheets F-2

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

Consolidated Statements of Operations	F-3
Consolidated Statement of Stockholders' Equity	F-4
Consolidated Statements of Cash Flows	F-5
Notes to Consolidated Financial Statements	F-6 - F-21

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Gyrodyne Company of America, Inc. and Subsidiaries
St. James, New York

We have audited the accompanying consolidated balance sheets of Gyrodyne Company of America, Inc. and Subsidiaries (the "Company") as of December 31, 2007 and December 31, 2006 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2007 and December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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 audits 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, audits of its internal control over financial reporting. Our audits include 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Gyrodyne Company of America, Inc. and Subsidiaries as of December 31, 2007 and December 31, 2006 and the results of their operations and their cash flows for the years ended December 31, 2007 and December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

/s/ Holtz Rubenstein Reminick LLP

Melville, New York
March 27, 2008

F-1

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

GYRODYNE COMPANY OF AMERICA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

Assets

Real Estate:

Rental property:

Land

Building and improvements

Machinery and equipment

\$ 2

10

12

2

10

Less Accumulated Depreciation

Land held for development:

Land

Land development costs

1

Total Real Estate, net

11

Cash and Cash Equivalents

3

Investment in Marketable Securities

10

Deposits on Property

Rent Receivable, net of allowance for doubtful
accounts of \$14,000 and \$46,000, respectively

Interest Receivable

Prepaid Expenses and Other Assets

Prepaid Pension Costs

1

Total Assets

\$ 27

=====

Liabilities and Stockholders' Equity

Liabilities:

Accounts payable

\$

Accrued liabilities

Tenant security deposits payable

Mortgage Payable

5

Deferred income taxes

7

Total Liabilities

14

Commitments and Contingencies

Stockholders' Equity:

Common stock, \$1 par value; authorized 4,000,000 shares; 1,531,086

shares issued; 1,289,878 and 1,237,219 shares outstanding, respectively

1

Additional paid-in capital

7

Accumulated Other Comprehensive Income

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

Unrealized Gain from Marketable Securities		4
Balance of undistributed income from other than gain or loss on sales of properties		-----
		14
Less Cost of Shares of Common Stock Held in Treasury; 241,208 and 293,867, respectively		(1

Total Stockholders' Equity		13

Total Liabilities and Stockholders' Equity		\$ 27
		=====

See notes to consolidated financial statements.

GYRODYNE COMPANY OF AMERICA, INC. AND SUBSIDIARIES

Consolidated Statements of Operations	Years Ended December 31,	
	2007	2006
Revenues		
Rental income	\$ 1,879,882	\$ 1,313,970
Interest income	1,038,150	1,594,988
	-----	-----
	2,918,032	2,908,958
	-----	-----
Expenses		
Rental expenses	896,340	731,530
General and administrative expenses	3,332,332	2,553,142
Depreciation	150,176	48,402
Provison for loss of interest on condemnation proceeds	332,377	-
Interest expense	162,450	-
	-----	-----
	4,873,675	3,333,074
	-----	-----
Loss from operations before loss on condenmation of rental property	(1,955,643)	(424,116)
Loss on condemnation of rental property	-	(1,500,000)
	-----	-----
Loss Before Benefit for Income Taxes	(1,955,643)	(1,924,116)
Benefit for Income Taxes	(403,989)	(1,747,814)
	-----	-----
Net Loss	\$ (1,551,654)	\$ (176,302)
	=====	=====
Net Loss Per Common Share:		
Basic	\$ (1.21)	\$ (0.14)
	=====	=====
Diluted	\$ (1.21)	\$ (0.14)

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

=====		
Weighted Average Number of Common Shares Outstanding:		
Basic	1,279,867	1,237,201
=====		
Diluted	1,279,867	1,237,201
=====		

See notes to consolidated financial statements.

F-3

Consolidated Statement of Stockholders' Equity

Years Ended December 31, 2007 and 2006

	\$1 Par Value Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive Income	Income (Deficit)	----- S
	Shares	Par Value				

Balance, January 1, 2006	1,531,086	\$ 1,531,086	\$ 8,399,134	\$ -	\$ 11,791,612	2
Tax Reduction - Stock Options	-	-	(194,000)	-	-	
Unrealized Gain from Marketable Securities	-	-	-	280,042	-	
Net Loss	-	-	-	-	(176,302)	

Balance, December 31, 2006	1,531,086	1,531,086	8,205,134	280,042	11,615,310	2
Exercise of Stock Options			(226,739)			(
Unrealized Loss from Marketable Securities				(131,627)		
Cash Distribution Payment					(5,160,157)	
Net Loss					(1,551,654)	

Balance, December 31, 2007	1,531,086	\$ 1,531,086	\$ 7,978,395	\$ 148,415	\$ 4,903,499	2
=====						

See notes to consolidated financial statements.

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows	Years Ended December 31,	
	2007	2006
Cash Flows from Operating Activities:		
Net loss	\$ (1,551,654)	\$ (176,302)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	164,594	76,038
Deferred income taxes	(303,000)	(1,581,135)
Bad debt expense	34,000	24,000
Net periodic pension benefit (income) cost	(44,855)	91,700
Provision for loss of interest on condemnation proceeds	332,377	-
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Land development costs	(459,912)	(321,514)
Accounts receivable	(21,734)	(18,876)
Interest receivable	71,590	(64,429)
Condemnation receivable	-	26,315,000
Prepaid expenses and other assets	83,395	(249,614)
(Decrease) increase in liabilities:		
Accounts payable	(69,825)	295,818
Accrued liabilities	(2,000,453)	1,555,910
Income taxes payable	-	(238,548)
Tenant security deposits	115,558	(52,354)
Total adjustments	(2,098,265)	25,831,996
Net Cash (Used in) Provided by Operating Activities	(3,649,919)	25,655,694
Cash Flows from Investing Activities:		
Costs associated with property, plant and equipment	(3,449,926)	(383,037)
Deposits on property	-	(504,000)
Proceeds from sale of marketable securities	7,199,204	-
Purchases of marketable securities	-	(24,784,143)
Principal repayments on investment in marketable securities	5,650,415	1,266,669
Net Cash Provided by (Used in) Investing Activities	9,399,693	(24,404,511)
Cash Flows from Financing Activities:		
Cash Distribution Payment	(5,160,157)	-
Principal payments on mortgage	(48,601)	-
Loan origination fees	(113,211)	-
Proceeds from exercise of stock options	76,049	74,052
Net Cash (Used in) Provided by Financing Activities	(5,245,920)	74,052
Net Increase in Cash and Cash Equivalents	503,854	1,325,235
Cash and Cash Equivalents, beginning of year	2,951,287	1,626,052
Cash and Cash Equivalents, end of year	\$ 3,455,141	\$ 2,951,287

Supplemental cash flow information:

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

Interest paid	\$	162,450	\$	-
Assumption of mortgage payable	\$	5,551,191	\$	-
Income taxes	\$	12,918	\$	31,193

See notes to consolidated financial statements.

F-5

GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

1. Summary of Significant Accounting Policies

Organization and nature of operations - Gyrodyne Company of America, Inc. and Subsidiaries (the "Company") is primarily a lessor of industrial and commercial real estate to unrelated diversified entities located in Long Island, New York, and is also pursuing development plans of its remaining real estate holdings. Effective May 1, 2006, the Company elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended and as such has changed its fiscal year end to December 31.

The State University of New York at Stony Brook has acquired part of the Company's real estate property located in Stony Brook/St. James, New York through eminent domain. See Note 18.

Principles of consolidation - The accompanying consolidated financial statements include the accounts of Gyrodyne Company of America, Inc. ("GCA") and all majority owned subsidiaries. Investments in affiliates in which the Company has the ability to exercise significant influence, but not control, would be accounted for under the equity method. Investment interests in excess of 5% in limited partnerships are accounted for under the equity method.

All consolidated subsidiaries are wholly owned. All significant inter-company transactions have been eliminated.

Rental real estate - Rental real estate assets, including land, buildings and improvements, furniture, fixtures and equipment, are stated at cost, and reported net of accumulated depreciation and amortization. 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.

Real estate held for development - 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.

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

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 an annual 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 are less than the carrying value of the property. Such cash flows 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.

Depreciation and amortization - Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets, as follows:

F-6

GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

Buildings and Improvements	10 to 39 years
Machinery and Equipment	3 to 20 years

Expenditures for maintenance and repairs are charged to operations as incurred. Significant renovations are capitalized.

Revenue recognition - Minimum revenues from rental property are recognized on a straight-line basis over the terms of the related leases. The excess of rents recognized over amounts contractually due, if any, are 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.

Allowance for doubtful accounts - Management must make estimates of the uncollectability of accounts receivable. Management specifically analyzes accounts receivable and analyzes historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

Investments - The Company has a 10.93% limited partnership interest in Callery-Judge Grove, L.P. (the "Grove") that owns a 3500+ acre citrus grove in Palm Beach County, Florida. The Company is accounting for this

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

investment under the equity method in accordance with Emerging Issue Task Force ("EITF") Topic D-46 "Accounting for Limited Partnership Investments" and the guidance in paragraph 8 of AICPA Statement of Position ("SOP") 78-9, "Accounting for Investments in Real Estate Ventures."

Cash equivalents - The Company considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

Investment in Marketable Securities - Marketable securities are carried at fair value and consist primarily of investments in marketable equity securities. The Company classifies its marketable securities portfolio as available-for-sale. This portfolio is continually monitored for differences between the cost and estimated fair value of each security. If the Company believes that a decline in the value of an equity security is temporary in nature, the Company records the change in other comprehensive income (loss) in stockholders' equity. If the decline is believed to be other than temporary, the equity security is written down to the fair value and a realized loss is recorded on the Company's statement of operations. There was no realized loss recorded by the Company's due to the write down in value for the years ended December 31, 2007 and 2006. The Company's assessment of a decline in value includes, among other things, the Company's current judgment as to the financial position and future prospects of the entity that issued the security. If that judgment changes in the future, the Company may ultimately record a realized loss after having initially concluded that the decline in value was temporary.

Deposits on Property - Deposits are paid on properties the Company is evaluating for purchase. Real estate deposits are capitalized when paid and may become nonrefundable under certain circumstances. When properties are acquired, the deposits paid by the Company are applied to the total purchase price.

Net loss per common share and per common equivalent share - The reconciliations for the years ended December 31, 2007 and 2006 are as follows:

F-7

GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

Year Ended December 31, 2007	Net Loss	Weighted Average Shares	Net Los Per Sha
Basic EPS	\$ (1,551,654)	1,279,867	\$ (1
Effect of Dilutive Securities - common stock options	-	-	
Diluted EPS	\$ (1,551,654)	1,279,867	\$ (1

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

Year Ended December 31, 2006	Net Loss	Weighted Average Shares	Net Loss Per Share
Basic EPS	\$ (176,302)	1,237,201	\$ ()
Effect of Dilutive Securities - common stock options	-	-	-
Diluted EPS	\$ (176,302)	1,237,201	\$ ()

Income taxes - Effective May 1, 2006, the Company operated as a real estate investment trust for federal and state income tax purposes. As a REIT, the Company is generally not subject to income taxes. To maintain its REIT status, the Company is required to distribute annually as dividends at least 90% of its REIT taxable income, as defined by the Internal Revenue Code ("IRC"), to its shareholders, among other requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to Federal and state income tax on its taxable income at regular corporate tax rates. Although the Company qualified for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property and Federal income and excise taxes on its undistributed income. The Company believes that it has met the REIT distribution and technical requirements for the year ended December 31, 2007 and the eight months ended December 31, 2006 and therefore, qualified as a REIT and was not subject to any federal and state income taxes. Management intends to continue to adhere to these requirements and maintain the Company's REIT status. See Note 18 with regard to contingencies.

The Company's investment in the Grove is held as a taxable REIT subsidiary of the Company and is subject to federal and state income taxes. Taxable REIT subsidiaries perform non-customary services for tenants, hold assets that the Company cannot hold directly and generally may engage in any real estate or non-real estate related business. Accordingly, through the investment in the Grove, the Company is subject to corporate federal and state income taxes on the Company's share of the Grove's taxable income for the year ended December 31, 2007 and the eight months ended December 31, 2006.

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.

Stock-based compensation - Effective January 1, 2006, the Company's stock options are accounted for in accordance with the recognition and measurement provisions of Statement of Financial Accounting Standards ("FAS") No. 123 (revised 2004), Share-Based Payment ("FAS 123(R)"), which replaces FAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, and related interpretations. FAS 123 (R) requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

within Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 107, which provides the Staff's views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies.

Prior to January 1, 2006, the Company accounted for similar transactions in accordance with APB No. 25 which employed the intrinsic value method of measuring compensation cost. Accordingly, compensation expense was not recognized for fixed stock options if the exercise price of the option equaled or exceeded the fair value of the underlying stock at the grant date.

While FAS No. 123 encouraged recognition of the fair value of all stock-based awards on the date of grant as expense over the vesting period, companies were permitted to continue to apply the intrinsic value-based method of accounting prescribed by APB No. 25 and disclose certain pro-forma amounts as if the fair value approach of SFAS No. 123 had been applied.

In adopting FAS 123(R), the Company applied the modified prospective approach to transition. Under the modified prospective approach, the provisions of FAS 123 (R) are to be applied to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under FAS 123.

As the requisite service period had been rendered for the outstanding stock-based awards prior to the adoption of FAS 123(R), the Company's results for the years ended December 31, 2007 and 2006 do not include any share-based compensation expense.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions 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 those estimates. The most significant assumptions and estimates relate to depreciable lives and the valuation of real estate.

Comprehensive Income - The Company reports comprehensive income in accordance with SFAS No. 130, Reporting Comprehensive Income. This statement defines comprehensive income as the changes in equity of an enterprise except those resulting from stockholders' transactions. Accordingly, comprehensive income includes certain changes in equity that are excluded from net income. The Company's only comprehensive income items were net income and the unrealized change in fair value of marketable securities.

New accounting pronouncements - In February 2007, the FASB issued Statement

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities--Including an amendment of FASB Statement No. 115". This Statement applies to all entities, including not-for-profit organizations. Most of the provisions of this Statement apply only to entities that elect the fair value option. However, the amendment to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not report net income. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company does not believe this pronouncement will have a material effect on its financial statements.

F-9

GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

In December 2007, the FASB issued Statement No. 141R ("FAS 141R") "Business Combinations". This Statement replaces FASB Statement No. 141, "Business Combinations". This Statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. This Statement's scope is broader than that of Statement 141, which applied only to business combinations in which control was obtained by transferring consideration. By applying the same method of accounting--the acquisition method--to all transactions and other events in which one entity obtains control over one or more other businesses, this Statement improves the comparability of the information about business combinations provided in financial reports. This Statement requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed in a business combination. Certain provisions of this statement will, among other things, impact the determination of acquisition-date fair value in a business combination (including contingent consideration); exclude transaction costs from acquisition accounting and change accounting practice for acquired contingencies, acquisition-related restructuring costs and tax benefits. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The effective date of this Statement is the same as that of the related FASB Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements".

In December 2007, the FASB issued Statement No. 160 ("FAS 160") "Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51". This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest ("NCI") in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement requires disclosure, on the face of the consolidated statement of income, of the amounts of

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

consolidated net income attributable to the parent and to the noncontrolling interest. The Statement requires that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The effective date of this Statement is the same as that of the related Statement 141R. The Company is currently evaluating the future impacts and disclosures of FAS 141R and FAS 160.

2. Investment in Marketable Securities

The historical cost and estimated fair value of investments in marketable securities available for sale as of December 31, 2007 and 2006 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed Securities - 2007	\$ 10,667,854	\$ 148,415	\$ -	\$ 10,816,269
Mortgage-backed Securities - 2006	\$ 23,517,473	\$ 280,042	\$ -	\$ 23,797,515

There was a realized gain of \$40,651 for the year ended December 31, 2007 and no realized gains or losses on sales of securities available-for-sale for the year ended December 31, 2006. The fair value of mortgage-backed securities was estimated using quoted market prices. None of the securities with an unrealized loss at December 31, 2007 and 2006 are considered to be other-than-temporarily impaired. The Company's investment is in hybrid mortgage-backed securities, with a AAA rating fully guaranteed by agencies of the U.S. Government. At December 31, 2007, marketable securities had an average life of approximately two years.

F-10

GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

3. Interest Receivable

In connection with the condemnation of the Flowerfield property, the Company had accrued interest commencing with the date Stony Brook University took title to the property, in November 2005, until the time the Company received the advance payment, in March 2006. Pursuant to the New York State Eminent Domain Procedure Law, 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.

As of December 31, 2007, the Company recorded a provision for loss of

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

interest on condemnation proceeds amounting to \$332,377 which represents a portion of the previously recorded interest receivable of \$921,385 pertaining to the Advance Payment in connection with the 2005 condemnation of 245 acres of property and certain buildings by the State University of New York at Stony Brook. During the year ended December 31, 2006, the Company received \$589,008 of interest on the Advance Payment. Although the Company had been assured by counsel representing the State that a statutory interest rate of 9% was due and payable on the Advance Payment of \$26.3 million, the State of New York has now taken the position that a lesser interest rate was applicable. The Company plans on pursuing the loss of interest on condemnation along with its claim for \$158 million in additional compensation in the Court of Claims of the State of New York. See Note 18.

4. Investment in Grove Partnership

The Company has a 10.93% limited partnership interest in the Callery-Judge Grove, L.P. (the "Grove"). As of December 31, 2007 and 2006, the carrying value of the Company's investment, under the equity method, was \$0. As a result, the Company did not record any of the losses for either fiscal year.

The Grove has reported to its limited partners that in June 2007 it received an independent appraisal report of the citrus grove property, which is now the subject of development applications. Based upon the appraised value of the citrus grove operations and property, at December 31, 2007 and 2006, strictly on a pro-rata basis, the estimated fair value of the Company's interest in the Grove would be approximately \$22,400,000 and \$22,500,000 respectively, without adjustment for minority interest and lack of marketability discount. The Company cannot predict what, if any, value it will ultimately realize from this investment.

The fiscal year end of the Grove is June 30. Summarized financial information of the Grove as of June 30, 2007 and 2006 is as follows:

Years Ended June 30,	2007	2006
	(in thousands)	(in thousands)
Total Current Assets	\$ 9,686	\$ 6,306
Total Assets	21,234	23,572
Total Current Liabilities	1,687	1,280
Total Liabilities	34,730	24,345
Total Partners' Capital	(13,496)	(773)
Total Revenues	2,420	2,588
Net Loss	(12,668)	(3,463)

F-11

GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

5. Accrued Liabilities

December 31,

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

	2007	2006
Condemnation costs - termination fee	\$ -	\$2,000,000
Payroll and related taxes	83,542	72,339
Professional fees	64,700	66,603
Directors fees	24,500	30,500
Other	1,265	5,018
Total	\$ 174,007	\$2,174,460

6. Mortgage Payable

In June 2007, in connection with the purchase of the Port Jefferson Professional Park, 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 in Port Jefferson Station, New York.

Interest expense for the year ended December 31, 2007 approximated \$162,000.

The mortgage payable matures as follows:

Years Ending December 31,	Amount
2008	\$86,721
2009	91,841
2010	97,263
2011	103,006
2012	109,087
Thereafter	5,014,705

7. Income Taxes

The Company files a federal and state income tax return that includes all 100% owned non taxable REIT subsidiaries. The Company files separate state income tax returns for its taxable REIT subsidiary.

The benefit for income taxes is comprised of the following:

F-12

GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

Years Ended December 31, 2007 and 2006

	Year Ended December 31,	
	2007	2006
Current:		
Federal	\$ (100,989)	\$ (141,677)
State	-	(25,002)
	(100,989)	(166,679)
Deferred:		
Federal	(143,000)	(599,135)
State	(160,000)	(982,000)
	(303,000)	(1,581,135)
	\$ (403,989)	\$ (1,747,814)

	December 31,	
	2007	2006
Deferred Tax Liabilities:		
Unrealized gain on investment in Citrus Grove	\$ (905,000)	\$ (502,000)
Gain on condemnation (a)	(6,927,000)	(7,633,000)
	(7,832,000)	(8,135,000)
Total Deferred Tax Liabilities	(7,832,000)	(8,135,000)
Net Deferred Income Taxes	\$ (7,832,000)	\$ (8,135,000)

Effective May 1, 2006, the Company elected to be taxed as a REIT for state income tax and federal income tax purposes under section 856(c)(1) of the Internal Revenue Code (the "Code"). As a result of the election, the Company converted to a December 31, fiscal year end. As long as the Company qualifies for taxation as a REIT, it generally will not be subject to federal and state income tax. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal and state income tax on its taxable income at regular corporate rates. Unless entitled to relief under specific statutory provisions, the Company will also be disqualified for taxation as a REIT for the four taxable years following the year in which it loses its qualification. Even if the Company qualifies as a REIT, it may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed income.

- (a) In accordance with Section 1033 of the Internal Revenue Code, the Company has deferred recognition of the gain on the condemnation of its real property for income tax purposes. If the Company replaces the condemned property with like kind property within three years (or such extended period if requested and approved by the Internal Revenue Service at its discretion) after April 30, 2006, recognition of the gain is deferred until the newly acquired property is disposed of. On June 27, 2007 the Company acquired the Port Jefferson Professional Park and replaced a portion of the condemned property totaling \$8,914,344 which represents a reinvestment of only a portion of the

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

condemnation proceeds. The Company will continue to recognize a deferred tax liability for the potential effect of the gain on condemnation. As of December 31, 2007, the remaining balance of condemnation proceeds to be reinvested is approximately \$17,401,000.

F-13

GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

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

	Year Ended December 31,	
	2007	2006
U.S. Federal Statutory Income Rate	-	-
State Income Tax, net of federal tax benefits	-	-
Reversal of Deferred Taxes Resulting from REIT Election and Reinvestment of Condemnation Proceeds	(15.4)%	(90.8)%
Other Differences, net	(5.3)%	-
	<u>(20.7)%</u>	<u>(90.8)%</u>

8. Retirement Plans

The Company has a noncontributory defined benefit pension plan covering substantially all of its employees. The benefits are based on annual average earnings for the highest sixty (60) months (whether or not continuous) immediately preceding the Participant's termination date. Annual contributions to the plan are at least equal to the minimum amount, if any, required by the Employee Retirement Income Security Act of 1974 but no greater than the maximum amount that can be deducted for federal and state income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date but also those expected to be earned in the future. During the years ended December 31, 2007 and 2006, the Company was not required and did not make any contributions to the Plan.

The following tables provide a reconciliation of the changes in the plan's benefit obligations and fair value of assets over years ended December 31, 2007 and 2006 and a statement of the funded status as of December 31, 2007 and 2006:

F-14

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

	December 31,	
	2007	2006
Pension Benefits		
Reconciliation of Benefit Obligation:		
Obligation	\$ 2,341,336	\$ 2,058,304
Service cost	121,392	86,496
Interest cost	132,108	85,398
Actuarial (gain) loss	(195,242)	198,197
Benefit payments	(173,637)	(87,059)
Obligation	\$ 2,225,957	\$ 2,341,336
Reconciliation at Fair Value of Plan Assets:		
Fair value of plan assets, beginning of year	\$ 3,808,671	\$ 3,039,786
Actual return on plan assets	(780,471)	855,944
Benefit payments	(173,637)	(87,059)
Fair Value of Plan Assets, end of year	2,854,563	3,808,671
Funded Status:		
Funded status	628,606	1,467,335
Unrecognized (gain) loss	496,722	(386,862)
Net Amount Recognized	\$ 1,125,328	\$ 1,080,473

The accumulated benefit obligation was \$1,883,163 and \$2,010,555 as of December 31, 2007 and 2006, respectively.

The following table provides the components of net periodic benefit cost for the plans for the years ended December 31, 2007 and 2006 :

	December 31,	
	2007	2006
Pension Benefits		
Service Cost	\$ 121,392	\$ 86,496
Interest Cost	132,108	85,398
Expected Return on Plan Assets	(298,355)	(159,100)
Amortization of Prior-Service Cost	-	40,230
Net Periodic Benefit Cost After Curtailments and Settlements	\$ (44,855)	\$ 53,024

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

	December 31,	
	2007	2006
Pension Benefits		
Weighted-Average Assumptions		
Discount rate	6.59%	5.77%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	5.00%	5.00%

F-15

GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

The Plan's investment objectives are expected to be achieved through a portfolio mix of Company stock, other investments, and cash and cash equivalents which reflect the Plan's desire for investment return.

The defined benefit plan had the following asset allocations as of their respective measurement dates:

	December 31,	
	2007	2006
Common Stock - Gyrodyne Company of America, Inc.	97.6%	98.6%
Other Funds	2.4%	1.4%
Total	100.0%	100.0%

Securities of the Company included in plan assets are as follows:

	December 31,	
	2007	2006
Number of Shares	60,580	60,580
Market Value	\$ 2,784,863	\$ 3,755,960

Expected approximate future benefit payments are as follows:

Years Ending December 31,	Amount
2008	\$ 171,331
2009	161,143
2010	151,098
2011	168,764
2012	159,167
2013 - 2017	670,125

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

9. Stock Option Plans

Incentive Stock Option Plan - The Company had a stock option plan (the "Plan") which expired in October 2003, under which participants were granted Incentive Stock Options ("ISOs"), Non-Qualified Stock Options ("NQSOS") or Stock Grants. The purpose of the Plan was to promote the overall financial objectives of the Company and its shareholders by motivating those persons selected to participate in the Plan to achieve long-term growth in shareholder equity in the Company and by retaining the association of those individuals who were instrumental in achieving this growth. Such options or grants became exercisable at various intervals based upon vesting schedules as determined by the Compensation Committee. The options were to expire between April 2007 and May 2008.

The ISOs were granted to employees and consultants of the Company at a price not less than the fair market value on the date of grant. All such options were authorized and approved by the Board of Directors, based on recommendations of the Compensation Committee.

ISOs were granted along with Stock Appreciation Rights, which permitted the holder to tender the option to the Company in exchange for stock, at no cost to the optionee, that represented the difference between the option price and the fair market value on date of exercise. NQSOS were issued with Limited Stock Appreciation Rights, which were exercisable, for cash, in the event of a change of control. In addition, an incentive kicker was provided for Stock Grants, ISOs and NQSOS, which increased the number of grants or options based on the market price of the shares at exercise versus the option price.

F-16

GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

Non-Employee Director Stock Option Plan - The Company adopted a non-qualified stock option plan for all non-employee Directors of the Company in October 1996. The plan expired in September 2000. Each non-employee Director was granted an initial 2,500 options on the date of adoption of the plan. These options were exercisable in three equal annual installments commencing on the first anniversary date subsequent to the grant. Additionally, each non-employee Director was granted 1,250 options on each January 1, 1997 through 2000, respectively. These additional options were exercisable in full on the first anniversary date subsequent to the date of grant. The options were to expire in January 2007.

A summary of the Company's various fixed stock option plans as of December 31, 2007 and 2006 and changes during the years then ended is presented below:

December 31,

2007

2006

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

Fixed Stock Options	Shares	Weighted Average Exercise Price	Shares	We Av Ex P
Outstanding, beginning of period	67,105	\$ 16.42	73,980	\$
Granted	-			
Exercised	(67,105)	\$ 16.42	(6,875)	\$
Forfeited	-		-	
Canceled	-		-	
Outstanding, end of period	-	-	67,105	\$
Options Exercisable, year end	-	-	67,105	\$

Incentive Compensation Plan - The Company has an incentive compensation plan for all full-time employees and members of the Board in order to promote shareholder value. The benefits of the incentive compensation plan are realized only upon a change in control of the Company. Change-in-control is defined as the accumulation by any person, entity or group of 30% or more of the combined voting power of the Company's voting stock or the occurrence of certain other specified events. In the event of a change in control, the Company's plan provides for a cash payment equal to the difference between the plan's "establishment date" price of \$15.39 per share and the per share price of the Company's common stock on the closing date, equivalent to 100,000 shares of Company common stock, such number of shares and "establishment date" price per share subject to adjustments to reflect changes in capitalization. The payment amount would be distributed to eligible participants based upon their respective weighted percentages (ranging from .5% to 18.5%).

10. Revolving Credit Line

The Company's line of credit has a borrowing limit of \$1,750,000, bears interest at the lending institution's prime-lending rate (7.25% at December 31, 2007) 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 December 31, 2007, and 2006, \$1,750,000 was available under this agreement and the Company was in compliance with the financial covenants.

F-17

GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

11. Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and U.S. Government securities. The Company places its

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

temporary cash investments with high credit quality financial institutions and generally limits the amount of credit exposure in any one financial institution. At times the Company maintains bank account balances, which exceed FDIC limits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash. Management does not believe significant credit risk exists at December 31, 2007 and 2006.

12. Commitments

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:

Years Ending December 31,	Amount
-----	-----
2008	\$1,688,000
2009	811,000
2010	603,000
2011	214,000
2012	66,000
Thereafter	15,000

	\$3,397,000
	=====

The Company was leasing office space in St. James, New York on a month-to-month basis through April 30, 2006. Rental expense for the year ended December 31, 2006 was \$18,594. On May 1, 2006, the Company moved into its current facility which it owns and therefore no longer has rent expense.

Employment agreements - Effective January 23, 2003, the Company amended the existing employment contracts with two officers, which provide for annual salaries aggregating approximately \$381,000. The terms of the agreements were extended from one to three years and provide for a severance payment equivalent to three years salary in the event of a change in control.

Land development contract - The Company entered into a Golf Operating and Asset Management Agreement (the "Agreement") with Landmark National ("Landmark") for the design and development of an 18-hole championship golf course community. On February 12, 2007, as a result of the State University of New York at Stony Brook's ("the University's") condemnation of the Flowerfield property, the Company entered into an agreement with Landmark National to terminate two agreements, the Golf Operating Agreement and the Asset Management Agreement, both dated April 9, 2002. In addition to abandoning its claim for 10% of all proceeds related to the condemnation and any sale and/or development of the remaining Flowerfield acreage, Landmark agreed to provide consulting services in connection with the eminent domain litigation. The agreement also includes consideration for previously provided services. The Company paid Landmark \$2,000,000, of which \$500,000 was accrued by the Company during its year ended December 31, 2005 as a termination fee. In addition the Company retained Landmark and will pay them \$1,000,000 over the next thirty-six months, 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. As a result of the initial payment due of \$2,000,000, the

GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

Company had accrued \$1,500,000 as additional condemnation expense for the eight months ended December 31, 2006. As is the case with various other expenses relating to the condemned property, the Company intends to add the \$2,000,000 to the existing claim for additional compensation with regard to the condemnation.

13. Fair Value of Financial Instruments

The methods and assumptions used to estimate the fair value of the following classes of financial instruments were:

The carrying amount of cash, receivables and payables and certain other short-term financial instruments approximate their fair value.

The estimated fair value of the Company's investment in the Callery Judge Grove Partnership at December 31, 2007, based upon an independent third party appraisal report, is approximately \$22,400,000 without adjustment for minority interest and lack of marketability discount, based on the Company's ownership percentage.

14. Related Party Transactions

A law firm related to a director provided legal services to the Company for which it was compensated approximately \$1,000 and \$8,000 for the years ended December 31, 2007 and December 31, 2006, respectively. As of January 1, 2005, the aforementioned law firm is no longer primary outside legal counsel to the Company.

15. Major Customers

For the year ended December 31, 2007 rental income from the three largest tenants represented 9%, 7% and 5% of total rental income.

For the year ended December 31, 2006 rental income from the three largest tenants represented 15%, 11% and 9% of total rental income.

16. Supplementary Information - Quarterly Financial Data (Unaudited)

Year Ended December 31, 2007	First	Second	Third	Fourth
Rental Income	\$ 286,859	\$ 314,104	\$ 613,683	\$ 665,236
Rental Property Expense	(200,258)	(191,320)	(227,198)	(277,564)
Income from Rental Property	86,601	122,784	386,485	387,672
Net (Loss) Income	\$ (185,428)	\$ 434,842	\$ (158,143)	\$ (1,642,925)

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

Net (Loss) Income Per Common Share								
Basic	\$	(.15)	\$.34	\$	(.12)	\$	(1.28)
	=====							
Diluted	\$	(.15)	\$.34	\$	(.12)	\$	(1.28)
	=====							

F-19

GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

Year Ended December 31, 2006	First	Second	Third	Fourth
Rental Income	\$ 311,536	\$ 323,071	\$ 340,742	\$ 338,621
Rental Property Expense	(210,908)	(169,135)	(163,717)	(187,770)

Income from Rental Property	100,628	153,936	177,025	150,851

Net Income (Loss)	\$ 115,332	\$ 84,082	\$ (18,123)	\$ (357,593)
	=====			
Net Income (Loss) Per Common Share				
Basic	\$.09	\$.07	\$ (.01)	\$ (.29)
	=====			
Diluted	\$.09	\$.07	\$ (.01)	\$ (.29)
	=====			

17. Interest Income

Interest income consists of the following:

	Year Ended December 31,	
	2007	2006

Interest on Condemnation Advance		
Payment	\$ -	\$ 538,556
Interest Income on Investments	871,046	911,324
Interest Income - Other	167,104	145,108

	\$1,038,150	\$1,594,988
	=====	

18. Contingencies

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

Edgar Filing: GYRODYNE CO OF AMERICA INC - Form 10-K/A

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. See Note 3 for a further discussion of the accrued interest on the proceeds on the condemnation of the Flowerfield property.

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.

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 which Faith agreed to an order to

F-20

GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

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. The Court has not yet ruled on this motion.

If the Company does not reinvest the condemnation proceeds received on the condemned property in accordance with Internal Revenue Code section 1033, the gain on condemnation of the Company's Flowerfield property will be subject to federal and state taxes. The Company must replace the condemned property by April 2009. In June 2007, the Company closed on the purchase of a medical office complex known as Port Jefferson Professional Park in Port Jefferson Station, New York. The acquisition price was \$8,914,344. The Port Jefferson Professional Park qualifies as replacement property under IRC section 1033.

