

GYRODYNE CO OF AMERICA INC
Form 10-K
March 31, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
FORM 10-K
(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, 2009

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 (I.R.S. Employer Identification No.)
organization)

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 ☐

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

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

(Check One):

Large Accelerated
accelerated filer ☐

☐

Non-accelerated Smaller
filer ☐ reporting
company ☒

(Do not check if
a 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 ☒

The aggregate market value of voting common stock held by non-affiliates of the registrant on June 30, 2009 was \$24,722,003. 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 March 26, 2010, 1,290,039 shares of the Registrant's common stock, par value \$1 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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FOR THE YEAR ENDED DECEMBER 31, 2009

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PART I

Introduction:

When we use the terms “Gyrodyne”, the “Company”, “we”, “us” and “our”, we mean Gyrodyne Company of America, Inc. and all entities owned by us including non-consolidated entities, except where it is clear that the term means only the parent company. References herein to our Annual Report are to our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

All references to 2009 and 2008 refer to our fiscal years ended or the dates, as the context requires, December 31, 2009 and December 31, 2008, respectively.

Cautionary Statements Concerning Forward –Looking Statements

The statements made in this Form 10-K that are not historical facts contain “forward-looking information” within the meaning of the Private Securities Litigation Reform Act of 1995, and Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended, which can be identified by the use of forward-looking terminology such as “may,” “will,” “anticipates,” “expects,” “projects,” “estimates,” “believes,” “seeks,” “could,” “should,” or “continue,” the negative thereof, other variations or comparable terminology. Important factors, including certain risks and uncertainties, with respect to such forward-looking statements that could cause actual results to differ materially from those reflected in such forward-looking statements include, but are not limited to, the effect of economic and business conditions, including risks inherent in the real estate markets of Suffolk and Westchester Counties in New York, Palm Beach County in Florida and Fairfax County in Virginia, the ability to obtain additional capital in order to maintain and or 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. These and other matters the Company discusses in this Report, or in the documents it incorporates by reference into this Report, may cause actual results to differ from those the Company describes. The Company assumes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Item 1. Business

Description of the Company's Business:

Gyrodyne Company of America, Inc. is a self-managed and self-administered real estate investment trust (“REIT”) formed under the laws of the State of New York. The Company operates primarily in one segment. The Company’s primary business is the investment in and the acquisition, ownership and management of a geographically diverse portfolio of medical office and industrial properties and development of industrial and residential properties. Substantially all of the Company’s properties are subject to net leases in which the tenant must reimburse Gyrodyne for a portion of or all of or substantially all of the costs and/ or cost increases for utilities, insurance, repairs and maintenance, and real estate taxes. However, certain leases provide that the Company is responsible for certain operating expenses.

As of December 31, 2009, the Company had 100% ownership in three medical office parks comprising approximately 130,000 rentable square feet and a multitenant industrial park comprising 127,062 rentable square feet. In addition, the Company has approximately 62.4 acres of undeveloped property in St. James, New York and an approximate 10% limited partnership interest in a limited partnership which owns an undeveloped Florida property, “the Grove”.

The Company believes it has qualified, and expects to continue to qualify as a REIT under Section 856(c)(1) of the Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, the Company generally will not be subject to federal and state income tax, provided that distributions to its shareholders equal at least 90% of its REIT taxable income as defined under the Code. The Company is permitted to participate in certain activities from which it was previously precluded in order to maintain its qualifications as a REIT; provided the Company conducts these activities through an entity that elects to be treated as a taxable REIT subsidiary ("TRS") under the Code. The Company has one taxable REIT subsidiary which will be subject to federal and state income tax on the income from these activities.

The Company currently has a total of 12 employees, of which 9 are full time, involved in support of the real estate operation and development plans. Competition among industrial and medical office rental properties on Long Island, Cortlandt Manor, New York and Fairfax Virginia is intense. Furthermore, the Company also competes in the development of industrial and residential property where the competition is equally intense. There are numerous commercial property owners that compete with the Company in attracting tenants, many of which are substantially larger than the Company. See Item 2, "Properties" for a discussion regarding dependence on major tenants.

History/Business Development:

Gyrodyne Company of America, Inc. (the “Company”) was organized in 1946 as a corporation under the laws of the State of New York. The Company's headquarters are located at 1 Flowerfield, Suite 24, St. James, New York 11780. The Company's main phone number is (631) 584-5400. The Company maintains a website at www.gyrodyne.com.

The Company was, from its inception and for the next 25 years, engaged in design, testing, development, and production of coaxial helicopters primarily for the U.S. Navy. Following a sharp reduction in the Company's helicopter manufacturing business and its elimination by 1975, the Company began converting its vacant manufacturing facilities and established its rental property operation. The Company has since concentrated its efforts on the development of its real estate in St. James, New York. The converted buildings in Flowerfield consist of 127,062 rentable square feet housing 51 tenants in space suitable for office, engineering, manufacturing, and warehouse use. The property, which is known as Flowerfield, consists of approximately 68 acres. Approximately 10 acres are utilized for the rental property and the balance of 58 remains undeveloped. The property is the subject of development plans (see below), part of which involves rezoning approximately 62.4 acres to “planned residential”. The annual rental revenue is approximately \$1,647,000, based on the tenant base and related rental rates in effect as of December 2009.

In 1965, the Company acquired a 20% limited partnership interest in Callery-Judge Grove, L.P., a New York limited partnership, which owns a 3,700+ acre citrus grove located in Palm Beach County, Florida, for a purchase price of \$1.1 million. As a result of four subsequent capital calls in which the Company chose not to participate, the Company's limited partnership interest is now 9.99%. The investment has yielded distributions to Gyrodyne of approximately \$5.5 million in the aggregate. The property is the subject of a plan for mixed use development and recently received approval to develop 2,996 residential units and 235,000 square feet of commercial and retail space.

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 approximately 245.5 acres of the Flowerfield Property pursuant to the New York Eminent Domain Procedure Law (the “EDPL”). On March 27, 2006, the Company received payment from the State of New York in the amount of \$26,315,000, which the Company had elected under the EDPL to accept as an advance payment for the property (the “Advance Payment”) and subsequently filed a Notice of Claim for additional compensation. 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. During the year ended December 31, 2006, the Company received \$589,008 of interest on the Advance Payment. The Company is currently seeking just compensation under the EDPL in a lawsuit against the State of New York (see below), and also plans on pursuing the loss of interest in such lawsuit. See also Note 18 in the footnotes to the consolidated financial statements.

In 2005, the Company retained an investment banking firm to assist management and the Board of Directors in reviewing the Company's strategic options. On December 9, 2005, the Company presented at its 2005 annual shareholders meeting a strategic plan for the future direction of the Company. The objective of the plan is to position the Company so that it is best able to achieve one or more shareholder liquidity events in a reasonable period of time that would put the maximum amount of cash or marketable securities in the hands of the Company's shareholders in a tax efficient manner. The plan calls for achieving this objective by pursuing a conversion to a real estate investment trust (REIT), disposition and redeployment of the assets of the Company in a tax efficient manner, maximization of the value for the remaining 68 acres at Flowerfield, and vigorous pursuit of maximum value from the State of New York for the 245.5 acres of Flowerfield taken by eminent domain. Following the Company's conversion to a REIT, which the Company completed in 2007, effective May 1, 2006, and so long as Gyrodyne qualifies for REIT tax status, the Company generally will not be subject to New York State and federal corporate income taxes on income and gain

generated after May 1, 2006, the effective date of the Company's REIT election, from investments in real estate, thereby reducing the Company's corporate-level taxes and substantially eliminating the double taxation on income and gain that usually results in the case of distributions as a C corporation.

On May 1, 2006, the Company filed a Notice of Claim with the Court of Claims of the State of New York seeking additional damages from the State of New York resulting from the eminent domain taking by the University. See "Legal Proceedings".

The Company initially invested the Advance Payment in short term U.S. Government securities and interest bearing deposits which were valued at \$26,184,383 and \$238,593, respectively, as of April 30, 2006. Subsequently, the Company invested in hybrid mortgage-backed securities fully guaranteed by agencies of the U.S. Government which are qualified REIT investments. During 2009, the remaining investments in hybrid mortgage backed securities were sold, with the balance of the proceeds applied toward the acquisition of the Fairfax Medical Center – see below.

In accordance with Section 1033 of the Internal Revenue Code, 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 for federal and state tax purposes from the disposition of 245.5 acres is deferred until the newly acquired property is disposed of. In June of 2007, June 2008 and March 2009 the Company acquired the Port Jefferson Professional Park, the Cortlandt Medical Center, and the Fairfax Medical Center, respectively. These purchases totaled approximately \$28,805,000 and represent the completion of the tax-efficient reinvestment of the condemnation proceeds.

On June 27, 2007, the Company acquired ten buildings in the Port Jefferson Professional Park in Port Jefferson Station, New York. The buildings were acquired for a purchase price of \$8,850,000. The buildings, located at 1-6, 8, 9 and 11 Medical Drive and 5380 Nesconset Highway in Port Jefferson Station, are situated on 5.16 acres with 39,329 square feet of rentable space. The purchase price per square foot was \$225 and the aggregate annual rent flow, based on the tenant base and monthly rate as of December 2009, is approximately \$918,000. The Company funded \$5,551,191 of the purchase price by the assumption of the existing mortgage debt on the property and the remainder in cash after adjustments.

On June 2, 2008, the Company acquired the Cortlandt Medical Center in Cortlandt Manor, New York. The property consists of five office buildings which are situated on 5.01 acres with 30,263 square feet of rentable space. The purchase price was \$7 million or \$231 per square foot. The aggregate annual rent flow from the property is currently \$967,000, based on the tenant base and monthly rate as of December 2009. Of the \$7 million purchase price, the Company paid \$1,750,000 in cash and received financing in the amount of \$5,250,000.

On March 31, 2009, the Company acquired the Fairfax, Medical Center in Fairfax, Virginia. The property consists of two office buildings which are situated on 3.5 acres with 57,621 square feet of rentable space. The purchase price was \$12,891,000 or \$224 per square foot. The aggregate annual rent flow from the property is approximately \$1,213,000, based on the tenant base and rate in effect as of December 2009. Of the \$12,891,000 purchase price, the Company paid \$4,891,000 in cash and received financing in the amount of \$8,000,000. The property qualified for the deferral treatment under Section 1033 of the Internal Revenue Code and completed the reinvestment program of the \$26.3 million Advance Payment received in connection with the condemnation of the 245 acres of the Flowerfield property.

The Company has filed an application to develop a gated, age restricted community on the remaining Flowerfield property that would include 39 single-family homes, 60 townhouses and 210 condominiums. The mix and total number of residential units could change upon approval of local government agencies. Living space would range from 1,600 square feet for the smallest condominiums to 2,800 square feet for detached single-family homes. Amenities would include a clubhouse with recreation facilities, pedestrian and bicycle paths, and extensive landscaping. The Company has engaged the firm of Platt Byard Dovell White Architects, a residential and commercial property designer, for this project. Leading the project will be Sam White, FAIA, a partner at the firm known for blending historic context into new architecture.

The application requires that the zoning of approximately 62.4 acres be changed from "light industrial" (approx. 55.5 acres) and "residential" (approx. 6.9 acres) to "planned residential".

On February 12, 2007, 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 Landmark agreeing not to pursue any claim under those agreements for 10% of all proceeds related to the condemnation and any future sale and/or development of the remaining Flowerfield acreage, Landmark agreed to provide consulting services in connection with the eminent domain litigation. In consideration for Landmark's agreement not to pursue the foregoing claims and for services previously provided, the Company paid Landmark \$2,000,000, \$500,000 of which was accrued by the Company during its year ended April 30, 2006. In addition, the

Company will also pay Landmark an additional \$1,000,000 over a thirty-six month period, 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 of March 2010, the liability to Landmark has been paid in full.

Neither the Company nor any of its subsidiaries have ever been in any bankruptcy, receivership or similar proceeding.

Global Credit and Financial Crisis

The continued concerns about the impact of a widespread and long term global credit and financial crisis have contributed to market volatility and diminishing expectations for the real estate industry, including the potential depression in our common stock price. The continued progression of our condemnation lawsuit has also added volatility to our common stock price. As a result, our business continues to be impacted including (1) difficulty obtaining financing to renovate or expand our current real estate holdings, (2) difficulty in consummating property acquisitions, (3) increased challenges in re-leasing space, and (4) potential risks stemming from late rental receipts, tenant defaults, or bankruptcies.

Business Strategy

We have focused our business strategy during the current financial crisis to strike a balance between preserving capital and improving the market value of our portfolio to meet our goal of executing on a liquidity event or series of liquidity events. Included within this strategy, are the following objectives:

- actively managing our portfolio to improve our net operating income, and operating cash flow from these assets while simultaneously increasing the market values of the underlying operating properties;
- actively pursuing the re-zoning effort of the Flowerfield property to maximize its value;
- employing cost-saving strategies to reduce our general and administrative expenses; and
- diligently managing the condemnation lawsuit.

We believe these objectives will strengthen our business and enhance the value of our underlying real estate portfolio.

Real Estate

Gyrodyne owns a 68 acre site called Flowerfield, primarily zoned for light industry, which is located approximately 50 miles east of New York City on the north shore of Long Island in the hamlet of St. James. Flowerfield's location also places it in hydrological zone VIII, one of the most liberal with respect to effluent discharge rates. The Company currently has 127,062 square feet of rentable space located on approximately 10 acres of developed property at Flowerfield. As of December 31, 2009, there were 51 tenants, comprising 58 leases and five additional long term tenants under month to month commitments. The annual base rent based on the rates in effect as of December 2009 is \$1,647,000 which included month to month annualized base rent of \$51,000 on approximately 3,800 square feet. The occupancy rate is 83% as of December 31, 2009. The Flowerfield property is located in Smithtown Township. Environmental studies have been updated and numerous other studies including archeological, ecological, and traffic have been conducted in connection with development plans -- all with no significant adverse findings. The Company believes that it does not incur material costs in connection with compliance with environmental laws. During the years ended December 31, 2009 and December 31, 2008, the Company had no material expenses related to environmental issues.

On June 27, 2007, the Company acquired ten buildings in the Port Jefferson Professional Park in Port Jefferson Station, New York. The buildings were acquired for an aggregate purchase price of \$8,850,000 or \$225 per square foot. The buildings, located at 1-6, 8, 9 and 11 Medical Drive and 5380 Nesconset Highway in Port Jefferson Station, are situated on 5.16 acres with 39,329 square feet of rentable space. As of December 31, 2009, there were 21 tenants, comprising 20 leases, and one long term tenant under a month to month agreement, together renting space with an annual base rent of approximately \$918,000, based on the tenant base and rates in effect on December 2009. The occupancy rate was 92% as of December 31, 2009. The Company funded \$5,551,191 of the purchase price by the assumption of the existing mortgage debt on the property and the remainder in cash after adjustments.

On June 2, 2008, the Company acquired the Cortlandt Medical Center in Cortlandt Manor, New York. The property consists of five office buildings which are situated on 5.01 acres with 30,263 square feet of rentable space. The purchase price was \$7 million or \$231 per square foot. As of December 31, 2009, there were 13 tenants, comprising 14 leases, renting space with an annual base rent of approximately \$967,000, based on the tenant base and rates in effect as of December 2009. The property was 100% occupied as of December 31, 2009. Of the \$7 million purchase price for the property, the Company paid \$1,750,000 in cash and received financing in the amount of \$5,250,000.

On August 29, 2008 the Company acquired a 1,600 square foot house located on 1.43 acres at 1987 Crompond Road, Cortlandt Manor New York. The purchase price was \$305,000. The Company was able to take advantage of a distressed sale by the seller as the property is located directly across the street from the Hudson Valley Hospital and adjoins the Cortlandt Medical Center. The property is zoned for medical office and is potentially a future development site for the Cortlandt Medical Center which is 100% occupied.

On March 31, 2009, the Company acquired the Fairfax Medical Center in Fairfax, Virginia. The property consists of two office buildings which are situated on 3.5 acres with 57,621 square feet of rentable space. The purchase price was \$12,891,000 or \$224 per square foot. As of December 31, 2009, there were 27 tenants, comprising 27 leases, renting space with an annual base rent of \$1,213,000, based on the rates in effect as of December 2009. The occupancy rate, as of December 31, 2009 was 81%. which included one signed 2009 tenant who took possession on January 1, 2010. Of the \$12,891,000 million purchase price, the Company paid \$4,891,000 in cash and received financing in the amount of \$8,000,000. The property qualified for the deferral treatment under Section 1033 of the Internal Revenue Code and completed the tax-efficient reinvestment program of the \$26.3 million Advance Payment received in connection with the condemnation of the 245 acres of the Flowerfield property.

Limited Partnership Investment in Callery-Judge Grove, L.P. (the "Grove")

The Company's initial participation in the Grove through its wholly owned taxable Reit subsidiary, Flowerfield Properties, Inc., represented a 20% limited partnership interest in the Grove. Based on four subsequent capital calls, most recently in 2009, in each of which the Company chose not to participate, the Company's share is now approximately 9.99%.

The Grove has reported to its limited partners that in November 2009 it received an independent appraisal report of the citrus grove property which reflects the approval to develop 2,996 residential units and 235,000 square feet of commercial and retail space. Based upon the appraised value of the citrus grove property, at December 31, 2009 and 2008, strictly on a pro-rata basis, the estimated fair value of the Company's interest in the Grove property would be approximately \$17,134,000 and \$21,700,000 respectively, without adjustment for minority interest, lack of marketability discount, or the property related secured debt facility. The Grove completed a capital call which closed with an effective date of June 30, 2009 in which it raised \$4,481,183 from certain existing partners and four new partners. Gyrodyne chose not to participate in the capital call which resulted in Gyrodyne's interest being diluted by 8.62%, or reduced to 9.99% from approximately 10.93%. The success of the capital call might reflect a belief by inside and/or active owners and the new outside investors that there remains upside potential in the Grove. The Grove reported to its partners that it believes the investors participating in the capital call received a 70% discount to the fair value of the property.

The original limited partnership investment of \$1.1 million, which was made in 1965, has since yielded distributions to Gyrodyne of approximately \$5.5 million in the aggregate. Due to recurring losses of the Grove, the investment is carried on the books of the Company at \$0 as a result of recording the Company's pro-rata share of losses under the equity method of accounting. In fiscal 2000, when the Company's share of losses equaled the carrying value of the investment, the equity method of accounting was suspended, and no additional losses have been charged to operations. The Company does record the tax expense and deferred tax liability related to the company's limited partnership interest in the tax losses of the Grove. The 2010 tax expense and year ended 2010 deferred tax liability related to the Grove is \$10,939 and \$1,206,000 respectively.

Tax Status

The Company has qualified, and expects to continue to qualify in the current fiscal year, as a real estate investment trust (REIT) for federal and state income tax purposes under section 856(c)(1) of the Internal Revenue Code (the "Code"). 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.

Competition

All of the rental properties owned by the Company are located in St. James, Port Jefferson Station, and Cortlandt Manor, New York and Fairfax, Virginia. The Company competes in the leasing of medical, professional and general office space and engineering, manufacturing and warehouse space with a considerable number of other real estate companies, some of which may have greater marketing and financial resources than the Company. Principal factors of competition in the Company's rental property business are: the quality of properties, leasing terms (including rent and other charges and allowances for tenant improvements), attractiveness and convenience of location, financial strength of its competitors, the quality and breadth of tenant services provided and reputation as an owner and operator

of quality office properties in its relevant market. Additionally, the Company's ability to compete depends upon, among other factors, trends in the national and local economies, investment alternatives, financial condition and operating results of current and prospective tenants, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population trends.

In seeking new investment opportunities, the Company competes with other real estate investors, including pension funds, insurance companies, foreign investors, real estate partnerships, other public and private real estate investment trusts, private individuals and other domestic real estate companies, many of which have greater financial and other resources than the Company. With respect to properties presently owned or to be owned by the Company, it competes with other owners of like properties for tenants.

Environmental Matters

The Company believes that each of its properties is in compliance, in all material respects, with federal, state and local regulations regarding hazardous waste and other environmental matters and is not aware of any environmental contamination at any of its properties that would require any material capital expenditure by the Company for the remediation thereof. No assurance can be given, however, that environmental regulations will not in the future have a materially adverse effect on the Company's operations.

Insurance

The Company carries comprehensive liability, property and umbrella insurance coverage which includes fire and business interruption insurance and covers all of its properties. The Company annually reviews its policies with regards to both risk management and the underlying premiums and believes the policy specifications, insurance limits and deductibles are appropriate given the relative risk of loss, the cost of the coverage and industry practice and, in the opinion of the Company's management, all of its properties are adequately insured.

Major Customers

The three largest tenants as of December 31, 2009 consist of Stony Brook University and another tenant in the industrial park and one medical tenant in our medical parks.

For the year ended December 31, 2009, rental income from the three largest tenants represented 6%, 4% and 3% of total rental income.

For the year ended December 31, 2008, rental income from the three largest tenants represented 6%, 5% and 4% of total rental income.

Fiscal year 2009 Transaction Summary:

The following summarizes our significant transactions and other activity during the year ended December 31, 2009.

Acquisitions and related debt – On March 31, 2009, the Company acquired the Fairfax Medical Center in Fairfax, Virginia. The property consists of two office buildings which are situated on 3.5 acres with 57,621 square feet of rentable space. The purchase price was \$12,891,000 or \$224 per square foot. As of December 31, 2009, there were 27 tenants, comprising 28 leases, renting space with an annual base rent of approximately \$1,213,000, based on rates in effect as of December 2009. Of the \$12,891,000 purchase price, the Company paid \$4,891,000 in cash and received financing in the amount of \$8,000,000. The property qualified for the deferral treatment under Section 1033 of the Internal Revenue Code and completed the tax-efficient reinvestment program of the \$26.3 million Advance Payment received in connection with the condemnation of the 245 acres of the Flowerfield property.

Leasing Activity

New Leases and Renewals:

Medical Parks – We entered into seven new leases and lease expansions in our medical parks encompassing approximately 9,000 square feet and approximately \$276,000 in annual rent. We also renewed 16 medical park leases comprising approximately 32,000 square feet and \$836,000 in annual revenues.

Industrial Park – We entered into leases with eight new tenants in the Flowerfield industrial park encompassing approximately 24,000 square feet and \$393,000 in annual revenue. Additionally, we entered into twenty six renewals in the industrial park during 2009 comprising 28,644 square feet and annual revenues of \$390,000.

Lease Terminations/Defaults - We aggressively negotiate renewals to ensure we maximize the revenue stream and market value of our properties. There were four lease terminations in our medical parks comprising 7,549 square feet

and \$200,687 in annual revenues. Additionally, our industrial park experienced 10 lease terminations comprising 9,686 square feet and \$123,704 of annual revenue. Three of the four lease terminations in our medical parks were the result of tenants pursuing retirement or a direct ownership in a building where they became an owner occupied tenant. While lease terminations are often unavoidable in an extended economic recession, the Company believes its asset management services have resulted in minimal terminations in our medical and industrial parks.

The above stated leasing activity reflects the Company's successful net increase in both occupancy rate and annual revenues. The improved results are the product of the Company's strategy of investing in medical office properties and repositioning the overall asset portfolio through a combination of high quality asset management services and further investment in the underlying assets.

Condemnation lawsuit – During 2009, the Company invested significant time and resources on expert witnesses, our legal team, and other consultants for the condemnation trial in the Court of Claims of the State of New York, resulting in condemnation-related expenses of \$1,307,184. The trial commenced on August 13, 2009 and concluded on August 18, 2009. The Company submitted its post trial memorandum of law prior to the court-imposed deadline of November 23, 2009.

Investments – The Company sold investments in mortgage-backed securities resulting in proceeds of \$8,163,813, reflecting a gain of \$159,805.

Subsequent Events:

Leasing Activity

During the first two months of 2010, the Company signed three new leases at its medical parks comprising 4,334 square feet and approximately \$101,000 in annual revenues. Additionally, the Company signed one new lease at its industrial park comprising 1,024 square feet and \$13,800 in annual revenues.

During the first two months of 2010, the Company had one lease termination at its medical parks comprising 815 square feet and approximate annual revenues of \$21,000. The Company's only lease termination at its industrial park was due to the Company's exercise of its eviction rights and has simultaneously signed a new lease to allow a neighboring tenant to immediately expand into the eviction related space, thereby avoiding any vacancy period.

Additionally, the Company signed its first lease with a cellular communication company comprising 49 square feet of rooftop space and approximately \$18,600 in annual revenue. The lease is for space previously excluded from our rentable square footage and has no material impact on the maintenance or aesthetics of the building.

2010 Acquisitions:

In January, 2010, the Company entered into a non-binding agreement to acquire a 1.6 acre 2 ½ story house for \$720,000. The property borders its current property holding in Cortlandt Manor residing between the Cortlandt Medical Center and the Hudson Valley Hospital Center. The converted house has approximately 2,500 rentable square feet, is fully tenanted and is zoned for medical office. The agreement is subject to an inspection period during which the Company may, at its own expense, arrange for legal, environmental and/or engineering analysis. The Company may terminate its agreement in the event that the seller fails to cure any title or survey objections pursuant to the terms of the agreement. The acquisition is expected to close in the second quarter of 2010. This acquisition will result in the Company owning the only remaining viable land for additional medical space development directly across the street from the Hudson Valley Hospital Center.

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

The executive office of the Company is located at 1 Flowerfield, Suite 24, St. James, New York and consists of approximately 3,256 square feet.

Real Estate Investments

The Company owns a 68 acre tract of land located in St. James on the north shore of Suffolk County, Long Island, New York. The property currently has 127,062 square feet of rental space and has 51 tenants. The Company also owns a professional office park which consists of ten buildings located in Port Jefferson Station on the north shore of Suffolk County, Long Island, New York. The property currently has 39,329 square feet of rental space and 21 tenants. In addition, the Company owns a medical office park which consists of five buildings located in Cortlandt Manor, New York. The property currently has 30,263 square feet of rental space and 13 tenants. On March 31, 2009, the Company expanded outside New York State with the acquisition of the Fairfax Medical Center, an attached two building medical park in Fairfax Virginia. The property consists of 57,621 square feet and has 27 tenants.

The land at all locations is carried on the Company's balance sheet at cost in the amount of \$5,637,483 while the buildings and improvements are carried at a depreciated cost of \$27,062,824. The Company has a secured revolving line of credit in the amount of \$1,750,000. The outstanding balance was zero as of December 31, 2009 and 2008. Collateral for the credit line consists of Building #7 and the surrounding 6 ½ acres located at Flowerfield in St. James which represents 52% of the revenues from the Flowerfield property as of December 31, 2009.

The average age of the Flowerfield buildings is approximately 50 years while the Port Jefferson Station buildings have an average age of 36 years, the Cortlandt Manor buildings have an average age of 20 years and the average age of the Fairfax Virginia buildings is approximately 37 years. All facilities continually undergo maintenance repair cycles for roofs, paved areas, and building exteriors. The general condition of internal infrastructure, HVAC, electrical, and plumbing is considered above average for facilities of this age. The grounds feature extensive landscaping, are neatly groomed and well maintained.

There are four main buildings in the Flowerfield Industrial Park with rental unit sizes ranging from 66 to 12,980 square feet. Given the location and size of rental units, the Flowerfield Industrial Park attracts tenants ranging in size from Stony Brook University and Stony Brook University Hospital to many smaller companies that are not dependent on extensive material or product handling. In the ten buildings located in Port Jefferson Station, the rental unit sizes range from 384 to 4,000 square feet. The size, location and configuration of the units are conducive to professional offices consisting primarily of medical and dental professionals. In the five buildings located in the Cortlandt Medical Center in Cortlandt Manor, the rental size units range from 1,123 to 4,358 square feet and are conducive to medical offices consisting primarily of medical professionals. In the two buildings located in Fairfax Medial Center in Fairfax County, Virginia, the rental size units range from 489 to 5,934 square feet and are conducive to medical offices consisting primarily of medical professionals.

The Company currently maintains a \$100 million dollar liability umbrella policy and has insured certain buildings and rent receipts predicated on an analysis of risk, exposure, and loss history. It is management's opinion that the premises are adequately insured.

The following table sets forth certain information as of December 31, 2009 for each of the Company's properties:

Property	Rentable Square Feet	Percent Leased	Annual Base Rent	Annual Rent Per Leased SQ. FT.	Number Of Tenants	Number Of Tenants Who Occupy 10% Or More Of Rentable Sq. Ft.
Flowerfield Industrial Park	127,062	83%	\$ 1,647,000	\$ 15.52	51	1
Port Jefferson Professional Park	39,329	92%	\$ 918,000	25.39	21	3
Cortlandt Medical Center	30,263	100%	\$ 967,000	31.94	13	4
Fairfax Medical Center	57,621	81%	\$ 1,213,000	26.11	27	1
All Locations	254,275	86%	\$ 4,745,000	21.67	112	0

The following table sets forth the Company's scheduled lease expirations as of December 31, 2009:

Number of	Square	Total	% of Gross Annual
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Fiscal Year	Leases	Feet	Annual	Rental Revenues Represented By Such Leases
End	Expiring	Expiring	Rent	
2010	52	81,275	\$ 1,554,872	33.28%
2011	31	49,005	1,179,546	25.24%
2012	13	19,635	408,906	8.75%
2013	4	10,503	283,522	6.07%
2014	13	27,449	660,239	14.13%
Thereafter	7	26,480	585,411	12.53%

The Company's properties are located in the hamlet of St. James, Port Jefferson Station and Cortlandt Manor, New York and Fairfax, Virginia. The Company has filed an application for the zoning of approximately 62.4 acres in St. James to be changed from light industrial (approximately 55.5 acres) and residential (approximately 6.9 acres) to planned residential.

Item 3. Legal Proceedings

Gyrodyne Company of America, Inc. v. The State University of New York at Stony Brook

On May 1, 2006 the Company commenced litigation in the Court of Claims of the State of New York seeking just compensation for the 245.5 acres in St. James and Stony Brook, New York (the "Property") that were appropriated by the State on November 2, 2005 under the power of eminent domain. On November 10, 2008, Gyrodyne and the State of New York filed with the Court of Claims their respective appraisals regarding the value of the Property. Gyrodyne's appraiser valued the Property at \$125,000,000 as of the November 2005 appropriation date based in part upon a separate zoning analysis report that Gyrodyne filed with the Court which concluded that there was a high probability the Property would have been rezoned from light industrial use to a Planned Development District. The State's appraiser valued the Property using the current light industrial zoning at a fair market value of \$22,450,000.

As the State's appraisal is \$3,865,000 less than the \$26,315,000 Advance Payment already made to Gyrodyne, if the Court of Claims were to adopt the State's appraisal, the State could recoup the \$3,865,000 difference between the Advance Payment and the State's appraisal, plus interest already paid on that portion of the Advance Payment.

The Company believes the State's appraisal is fundamentally flawed in that it misapplied the eminent domain law's requirement that just compensation be determined based upon the highest and best use and the probability that such use could have been achieved.

The trial in the Court of Claims commenced on August 13, 2009 and concluded on August 18, 2009. The Company submitted the post – trial memorandum of law prior to the November 23, 2009 Court imposed deadline.

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

This case, reported on in prior periodic reports, was settled with no consideration being paid by the Company to the plaintiffs. The settlement stipulation that discontinued the matter was signed by all parties and was filed with the Suffolk Supreme Court on July 16, 2009.

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 believes the aggregate loss, if any, will not be material.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Market information

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The Company's Common Stock, \$1 par value (symbol: "GYRO") is traded in the NASDAQ Small-Cap Market. Since June 10, 1948, the NASDAQ Small-Cap Market has been the principal market in which the Company's stock is publicly traded. Set forth below are the high and low sales prices for the Company's stock for each full quarter within the two most recent fiscal years:

Quarter Ended			
	Fiscal 2008	Low	High
March 31, 2008		\$ 38.00	\$ 49.99
June 30, 2008		\$ 33.50	\$ 42.00
September 30, 2008		\$ 28.59	\$ 40.00
December 31, 2008		\$ 22.76	\$ 39.00

	Quarter Ended Fiscal 2009		Low	High
March 31, 2009	\$	21.00	\$	26.25
June 30, 2009	\$	23.14	\$	42.01
September 30, 2009	\$	34.30	\$	44.98
December 31, 2009	\$	36.87	\$	44.34

(b) Approximate number of equity security holders, including shares held in street name by brokers.

Number of
Holders of
Record
Title of a s o f
Class February
22, 2010
Common 602
S t o c k ,
\$1.00 Par
Value

(c) There were no cash dividends declared on the Company's Common Stock during the year ended December 31, 2009 and 2008.

(d) Equity Compensation Plan Information.

As of December 31, 2009, there were no equity compensation plans under which securities of the Company were authorized for issuance.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Overview

As used herein, the terms "we," "us," "our" or the "Company" refer to Gyrodyne Company of America, Inc., a New York corporation. We operate as a fully integrated, self-administered and self-managed real estate investment trust ("REIT") focused on acquiring, developing, owning, leasing and managing medical, commercial and industrial real estate. Our tenants include unrelated diversified entities with a recent emphasis on medical office parks and properties. Our properties are generally located in markets with well established reputations, including Suffolk and Westchester counties in New York and Fairfax, Virginia.

As of December 31, 2009, our portfolio consisted of four developed properties, consisting of 21 buildings with an aggregate of 254,275 rentable square feet. We also own undeveloped land parcels adjacent to existing properties for which plans are currently being formulated.

Factors Which May Influence Future Operations

Our operating focus is on acquiring, developing, owning, leasing and managing medical, commercial and industrial space. As of December 31, 2009, our operating portfolio was 86% leased to 112 tenants with one occupancy scheduled for January 2010 upon completion of certain tenant improvements. As of December 31, 2008, our operating portfolio was 90% leased to 86 tenants. The year over year decrease in the gross portfolio occupancy percentage is a reflection of an increase in the rentable square footage in our portfolio, which increased by approximately 57,000 rentable square feet in the year ended December 31, 2009 mainly as a result of the acquisition of the Fairfax Medical Center in Fairfax, Virginia. Total leased square footage during 2008 increased by 39,817 square feet. The Company's strategy of repositioning its assets involves purchasing medical space where the Company believes it could increase the occupancy rate of the targeted acquisition. As a result, a material acquisition where the acquiring asset's occupancy rate is below the Company average will result in temporarily decreasing the overall occupancy rate. The Virginia acquisition has a lower occupancy rate than the occupancy rate of the Company's other medical parks. Current traffic at the Virginia facility combined with three new leases signed in the first two months of 2010, indicates an upward trend in the occupancy rate will materially increase in 2010. Furthermore, the rental rates in Virginia are greater than the historical Company average rate, therefore the increase in occupancy will have a proportionately greater- impact in rental income on the overall portfolio.

Our leasing strategy for 2010 includes negotiating longer term leases, and focuses on leasing vacant space, negotiating renewals for leases scheduled to expire during the year, and identifying new tenants or existing tenants seeking additional space.

Lease Expirations

The following is a summary of lease expirations and related revenues of leases in place at December 31, 2009. This table assumes that none of the tenants exercise renewal options or early termination rights, if any, at or prior to the scheduled expirations:

Fiscal Year		Number of Leases	Square Feet	Total Annual Rent	% of Gross Annual Rental Revenues Represented By Such Leases	
End	Expiring					
2010	52	81,275	\$	1,554,872	33.28	%
2011	31	49,005		1,179,546	25.24	%
2012	13	19,635		408,906	8.75	%
2013	4	10,503		283,522	6.07	%
2014	13	27,449		660,239	14.13	%
Thereafter	7	26,480		585,411	12.53	%

The success of our leasing and acquisition strategy will be dependent upon the general economic conditions and more specifically real estate market conditions and trends in the United States and in our target markets of New York, northern Virginia and the eastern portion of the United States. We cannot give any assurance that leases will be renewed or that available space will be re-leased at rental rates equal to or above the current contractual rental rates or at all.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statements. On an ongoing basis, we evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. Below is a discussion of accounting policies that we consider critical in that they address the most material parts of our financial statements, require complex judgment in their application or require estimates about matters that are inherently uncertain.

Investments in Real Estate

Investments in real estate are carried at depreciated cost. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	5-39 years
Machinery & equipment	3 to 20 years

Our estimates of useful lives have a direct impact on our net income. If expected useful lives of our investments in real estate were shortened, we would likewise depreciate the assets over a shorter time period, resulting in an increase to depreciation expense and a corresponding decrease to net income on an annual basis.

Management must make significant assumptions in determining the value of assets and liabilities acquired. The use of different assumptions in the allocation of the purchase cost of the acquired properties would affect the timing of recognition of the related revenue and expenses.

Repair and maintenance costs are charged to expense as incurred and significant replacements and betterments are capitalized. Repairs and maintenance costs include all costs that do not extend the useful life of an asset or increase its operating efficiency. Significant replacements and betterments represent costs that extend an asset's useful life or increase its operating efficiency.

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. Tenant reimbursements to the Company for expenses where the Company negotiates, manages, contracts and pays the expense on behalf of the tenant are recognized as revenue when they become estimable and collectible. 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.

Assets and Liabilities Measured at Fair-Value – On January 1, 2008, we adopted ASC Topic 820, Fair Value Measurements (“ASC Topic 820”), which defines fair-value, establishes a framework for measuring fair-value, and expands disclosures about fair-value measurements. ASC Topic 820 applies to reported balances that are required or permitted to be measured at fair-value under existing accounting pronouncements; accordingly, the standard does not require any new fair-value measurements of reported balances.

On January 1, 2008, we adopted ASC Topic 825, The Fair Value Option for Financial Assets and Financial Liabilities, which permits companies to choose to measure certain financial instruments and other items at fair-value in order to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently. However, we have not elected to measure any additional financial instruments and other items at fair-value (other than those previously required under other GAAP rules or standards) under the provisions of this standard.

ASC Topic 820 emphasizes that fair-value is a market-based measurement, not an entity-specific measurement. Therefore, a fair-value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair-value measurements, ASC Topic 820 establishes a fair-value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair-value measurement is based on inputs from different levels of the fair-value hierarchy, the level in the fair-value hierarchy within which the entire fair-value measurement falls is based on the lowest level input that is significant to the fair-value measurement in its entirety. Our assessment of the significance of a particular input to the fair-value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

During 2008 and 2009, we had investments in hybrid mortgage-backed securities, with a AAA rating fully guaranteed by U.S. government agencies (the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation). The fair values of mortgage-backed securities originated by U.S. government agencies are based on a pricing model that incorporates prepayment speeds and spreads to determine appropriate average life of

mortgage-backed securities. The spreads are sourced from broker/dealer's trade prices and the new issue market. As the significant inputs used to price the mortgage-backed securities are observable market inputs, the fair values of these securities are included in the Level 2 fair value hierarchy.

Newly Issued Accounting Pronouncements

See Notes to Consolidated Financial Statements included elsewhere herein for disclosure and discussion of new accounting standards.

RESULTS OF OPERATIONS

The following is a comparison, for the years ended December 31, 2009 and 2008, of the operating results of Gyrodyne Company of America, Inc.

Comparison of the Year Ended December 31, 2009 to the Year Ended December 31, 2008

The Company is reporting net income of \$1,522,890 for the fiscal year ended December 31, 2009 compared to a net income of \$1,542,249 for the twelve months ended December 31, 2008. Basic and Diluted per share income amounted to \$1.18 for 2009 compared to per share income of \$1.20 for the prior year. Both periods included the recognition of tax benefits totaling \$4,130,000 and \$2,496,000 for 2009 and 2008, respectively, and are more fully described in a latter section of this report. The Company does not have any REIT taxable income for 2009 and 2008. As a result, there is no available distributable income; accordingly the Company has not declared a dividend.

Rental Revenues. - Rental revenues are comprised solely of rental income and amounted to \$4,287,227, representing a \$1,320,008 or a 44% improvement over the 2008 total of \$2,967,219. These improved earnings reflect a full year of operating the Cortlandt Medical Center which was acquired in June of 2008, nine months of operating the Fairfax Medical Center which was acquired in March 2009, and improved results at the Flowerfield facility. The increases (decreases) over 2008 results per property amounted to \$(34,695), \$418,355, \$858,667 and \$77,681 for Port Jefferson, Cortlandt, Fairfax and Flowerfield, respectively.

On a pro forma basis, the comparison of rental revenues for the years ended December 31, 2009 and 2008 as if all the properties operated for twelve months are estimated as follows:

Facility Rental Revenue