

GYRODYNE CO OF AMERICA INC

Form 10-Q

May 09, 2012

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended March 31, 2012

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
(State or other jurisdiction of incorporation or organization)

11-1688021
(I.R.S. Employer Identification No.)

1 Flowerfield, Suite 24, St. James, NY 11780
(Address and Zip Code of principal executive offices)

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

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

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

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

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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(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

On April 30, 2012, 1,482,680 shares of the Registrant's common stock, par value \$1.00 per share, were outstanding.

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 QUARTER ENDED MARCH 31, 2012

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

GYRODYNE
COMPANY OF AMERICA,
INC.

AND

SUBSIDIARIES

CONDENSED
CONSOLIDATED
BALANCE SHEETS

ASSETS	March 31, 2012 (Unaudited)	December 31, 2011
REAL ESTATE		
Rental property:		
Land	\$ 5,163,093	\$ 5,163,093
Building and improvements	32,895,999	32,855,932
Machinery and equipment	343,272	338,275
	38,402,364	38,357,300
Less accumulated depreciation	5,605,458	5,381,026
	32,796,906	32,976,274
Land held for development:		
Land	558,466	558,466
Land development costs	1,636,345	1,607,600
	2,194,811	2,166,066
Total real estate, net	34,991,717	35,142,340
Cash and cash Equivalents	4,664,495	10,375,994
Investment in marketable securities	5,305,587	-
Rent receivable, net of allowance for doubtful accounts of \$109,000 and \$103,000, respectively	158,785	83,942
Deferred rent receivable	164,317	137,220
Prepaid expenses and other assets	1,038,352	1,002,250
Prepaid pension costs	1,065,999	1,064,843
Total Assets	\$ 47,389,252	\$ 47,806,589

LIABILITIES AND STOCKHOLDERS' EQUITY**LIABILITIES:**

Accounts payable	\$ 313,582	\$ 333,936
Accrued liabilities	458,804	456,166
Deferred rent liability	160,116	83,047
Tenant security deposits payable	485,820	486,861
Mortgage loans payable	20,981,699	21,143,780
Deferred income taxes	1,315,000	1,315,000
Total Liabilities	23,715,021	23,818,790

Commitments and contingencies

STOCKHOLDERS' EQUITY:

Common stock, \$1 par value; authorized 4,000,000 shares; 1,723,888 shares issued; 1,482,680 shares outstanding	1,723,888	1,723,888
Additional paid-in capital	17,747,069	17,747,069
Accumulated other comprehensive income	247,407	292,031
Balance of undistributed income other than gain or loss on sales of properties	5,493,564	5,762,508
	25,211,928	25,525,496
Less cost of shares of common stock held in treasury; 241,208	(1,537,697)	(1,537,697)
Total Stockholders' Equity	23,674,231	23,987,799
Total Liabilities and Stockholders' Equity	\$ 47,389,252	\$ 47,806,589

See notes to condensed consolidated financial statements

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

	Three Months Ended March 31,	
	2012	2011
Revenues		
Rental income	\$1,187,267	\$1,260,180
Rental income - tenant reimbursements	148,869	150,519
Total	1,336,136	1,410,699
Expenses		
Rental expenses	594,549	625,449
General and administrative expenses	474,833	455,551
Condemnation expense	63,199	168,666
Depreciation	224,433	204,605
Total	1,357,014	1,454,271
Other Income (Expense):		
Interest income	12,846	71
Interest expense	(260,912)	(305,654)
Total	(248,066)	(305,583)
Loss before provision for income taxes	(268,944)	(349,155)
Provision for income taxes	-	-
Net loss	\$(268,944)	\$(349,155)
Net loss per common share:		
Basic and diluted	\$(0.18)	\$(0.27)
Weighted average number of common shares outstanding:		
Basic and diluted	1,482,680	1,290,039

See notes to condensed consolidated financial statements

GYRODYNE COMPANY OF AMERICA, INC.
 AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE
 INCOME (LOSS)
 (UNAUDITED)

	Three Months Ended March 31,	
	2012	2011
Net loss	\$(268,944)	\$(349,155)
Other comprehensive (loss) income:		
Unrealized loss on investments	(44,624)	-
Recognition of unrealized loss on interest rate swap	-	34,681
Other comprehensive (loss) income	(44,624)	34,681
Comprehensive loss	\$(313,568)	\$(314,474)

See notes to condensed consolidated financial statements

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

	Three Months Ended March 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(268,944)	\$(349,155)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	233,444	214,138
Bad debt expense	6,000	6,000
Net periodic pension benefit (income) cost	(1,156)	(10,347)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Rent receivable	(80,843)	92,211
Deferred rent receivable	(27,097)	(11,603)
Prepaid expenses and other assets	(42,643)	23,406
Increase (decrease) in liabilities:		
Accounts payable	(20,354)	(202,062)
Accrued liabilities	2,638	18,977
Deferred rent liability	77,069	(4,579)
Tenant security deposits	(1,041)	(2,734)
Total adjustments	146,017	123,407
Net cash used in operating activities	(122,927)	(225,748)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of building improvements and equipment	(45,063)	(146,101)
Land development costs	(28,746)	(45,886)
Purchases of marketable securities	(5,375,680)	-
Principal repayments on investment in marketable securities	25,469	-
Net cash used in investing activities	(5,424,020)	(191,987)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on mortgage loans payable	(162,081)	(145,768)
Loan origination fees paid	(2,471)	-
Net cash used in financing activities	(164,552)	(145,768)
Net decrease in cash and cash equivalents	(5,711,499)	(563,503)
Cash and cash equivalents at beginning of period	10,375,994	2,141,522
Cash and cash equivalents at end of period	\$4,664,495	\$1,578,019
Supplemental cash flow information:		
Interest paid	\$285,497	305,654

See notes to condensed consolidated financial statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The Company:

Gyrodyne Company of America, Inc. (“Gyrodyne” or the “Company”) is a self-managed and self-administered real estate investment trust (“REIT”) formed under the laws of the State of New York. The Company manages its business as 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, located in the Northeast and mid – Atlantic regions of the United States. Substantially all of the Company’s rental properties are subject to net leases in which the tenant must reimburse Gyrodyne for a portion, all of or substantially all of the costs and/ or cost increases for utilities, insurance, repairs and maintenance, and real estate taxes. Certain leases provide that the Company is responsible for certain operating costs.

As of March 31, 2012, the Company had 100% ownership in three medical office parks comprising an aggregate of approximately 131,000 rentable square feet and a multitenant industrial park comprising approximately 128,000 rentable square feet. In addition, the Company has approximately 68 acres of property in St. James, New York, approximately 10 acres of which are utilized by the industrial park, and an estimated 9.32% limited partnership interest in a limited partnership (the “Grove”) which owns an undeveloped Florida property (the “Grove Property”).

The Company 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 we distribute at least 90% of our REIT taxable income, as defined under the Code, in the form of a dividend to our shareholders each year and comply with various other requirements. As a result of the REIT Modernization Act of 1999, the Company is permitted to participate in certain activities without jeopardizing its REIT status which would have previously been precluded, 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 TRS, the only asset being its investment in the Grove, which will be subject to federal and state income tax on the income from these activities.

2. Basis of Quarterly Presentations:

The accompanying quarterly financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“GAAP”). The financial statements of the Company included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and, in the opinion of management, reflect all adjustments which are necessary to present fairly the results for the three-month period ended March 31, 2012 and 2011.

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

This report should be read in conjunction with the audited financial statements and footnotes therein included in the Annual Report on Form 10-K for the year ended December 31, 2011.

The results of operations for the three-month period ended March 31, 2012 are not necessarily indicative of the results to be expected for the full year.

3. Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

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4. Investment in Marketable Securities

The Company determines the appropriate classification of securities at the time of purchase and reassesses the appropriateness of such classification at each reporting date. All marketable securities held by the Company have been classified as available-for-sale and, as a result, are stated at fair value, based on a pricing model that incorporates coupon type, prepayment speeds and the type of collateral backing the securities. Unrealized gains and losses on available-for-sale securities are recorded as a separate component of stockholders' equity. Any realized gains and losses on the sale of securities, as determined on a first-in, first-out basis, will be included in the Consolidated Statements of Operations.

The Company reviews its investments on a regular basis to evaluate whether or not each security has experienced an other-than-temporary decline in fair value. If it is believed that an other-than-temporary decline exists, the Company will write down the investment to market value and record the related write-down in the Consolidated Statements of Operations.

The historical cost and estimated fair value of investments in marketable securities available for sale as of March 31, 2012 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed Securities	\$ 5,350,211	\$ -	\$ 44,624	\$ 5,305,587

The Company's investment is in hybrid mortgage-backed securities, each of which contained both AA and AAA ratings, the principal of which is fully guaranteed by agencies of the U.S. Government. At March 31, 2012, marketable securities based on amortized cost, reflect a yield of approximately 2% and an adjusted duration of less than four years. The Company did not have any investments in mortgage backed securities during the year ended December 31, 2011. The fair value of mortgage-backed securities was estimated based on a Level 2 methodology, additional details of which are discussed further in Note 11 – Fair Value of Financial Instruments. None of the securities with an unrealized loss at March 31, 2012 are considered to be other-than-temporarily impaired, therefore the unrealized loss was reported in the Condensed Consolidated Statement of Comprehensive Income (Loss).

5. Earnings per Share:

Basic earnings per common share are computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share give effect to stock options and warrants which are considered to be dilutive common stock equivalents. The diluted earnings per share presentation is not made due to the net loss which would make the presentation anti-dilutive. Treasury shares have been excluded from the weighted average number of shares. The Company does not have any outstanding Common Stock equivalents as of March 31, 2012.

During the third quarter ended September 30, 2011, the Company filed a registration statement on Form S-3 with the Securities and Exchange Commission to register a number of shares of the Company's common stock to be offered in a rights offering by the Company to its shareholders. The rights offering resulted in 192,641 common shares being issued.

6. Income Taxes:

Deferred income 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.

7. Mortgage loans Payable:

Mortgage loans payable are comprised of the following:

	March 31, 2012 (Unaudited)	December 31, 2011
Mortgage payable - Port Jefferson Professional Park (a)	\$5,093,478	\$5,130,831
Mortgage payable - Cortlandt Medical Center (b)	4,480,000	4,532,500
Mortgage payable - Fairfax Medical Center (c)	7,556,778	7,598,188
Mortgage payable - Flowerfield Industrial Park (d)	3,851,443	3,882,261
Total	\$20,981,699	\$21,143,780

(a) 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 "Port Jefferson Mortgage"). The Port Jefferson Mortgage bore interest at 5.75% through February 1, 2012. Effective January 17th, 2012, the Company negotiated an interest rate modification from 5.75% to 5% for the 5 year period February 1, 2012 through February 1, 2017 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. As a result of the rate modification, the interest rate at March 31, 2012 is 5%. The Port Jefferson Mortgage is payable in monthly installments of principal and interest totaling \$33,439 through February 2012. From March 1, 2012 through February 1, 2022, the minimum monthly installment will be no less than \$31,086 and will vary based upon the Fixed Rate Advance. In February 2022, a balloon payment is due of approximately \$3,560,000. The Port Jefferson Mortgage is collateralized by the Port Jefferson Professional Park in Port Jefferson Station, New York.

(b) In June 2008, in connection with the purchase of the Cortlandt Medical Center in Cortlandt Manor, New York, the Company borrowed \$5,250,000 from a bank (the "Cortlandt Mortgage"). The Cortlandt Mortgage originally bore interest at a per annum rate of 225 basis points above the one month LIBOR rate (4.71% at inception) through July 1, 2018, subject to monthly adjustment. The Cortlandt Mortgage is payable in monthly installments with a fixed principal payment of \$17,500 plus interest, through June 1, 2018. In July 2018, a balloon payment is due of approximately \$3,168,000. The Cortlandt Mortgage is collateralized by the Cortlandt Medical Center. As part of the terms and conditions of the Cortlandt Mortgage, reacting to an increase in the LIBOR rate, the Company exercised an option to enter into an interest rate swap agreement in November 2008 with the bank holding the mortgage, thereby fixing the interest rate at 5.66% through November 1, 2011. Following the expiration of the Interest Rate Swap Agreement, the Cortlandt Mortgage interest rate is variable and floating based on the one month Libor rate plus 225 basis points, which equates to approximately 2.5% at March 31, 2012, and December 31, 2011, respectively. The Company continues to have an option to enter into an interest rate swap agreement but does not plan to hedge any variable interest rate risk for 2012.

(c) In March 2009, in connection with the purchase of the Fairfax Medical Center in Fairfax, Virginia by Virginia Healthcare Center, LLC (“VHC”), a wholly-owned subsidiary of the Company, VHC borrowed \$8,000,000 from a bank (the “Fairfax Mortgage”). The Fairfax Mortgage bears interest at 5.875% through April 10, 2014 and thereafter adjusts to the higher of 5.50% or 300 basis points over the weekly average yield on five-year United States Treasury securities. The Fairfax Mortgage is collateralized by a Deed of Trust and Security Agreement establishing a first trust lien upon the land, buildings and improvements as well as a Collateral Assignment of Leases and Rents and matures on April 10, 2019. In April 2019, a balloon payment is due of approximately \$6,120,000. The payment of the indebtedness evidenced by the Fairfax Mortgage and the performance by VHC of its obligations thereunder have been guaranteed by the Company.

(d) On December 29, 2010, the Company closed on a mortgage loan with a bank for \$4,000,000. A portion of the proceeds was used to retire the outstanding line of credit with the Company’s previous lender of \$1,750,000. The mortgage loan has a maturity date of January 2, 2031 and a floating interest rate of prime plus 100 basis points with a floor of 5%, to be adjusted once annually on its anniversary date. The interest rate is 5% at March 31, 2012. The mortgage loan is subject to a 20 year amortization schedule requiring monthly payments of principal and interest due on the first of each month beginning February 1, 2011. The mortgage loan is secured by approximately 35.1 acres of the Flowerfield Industrial Park including the respective buildings and related leases. In the event of collection from New York State under the State of New York Court of Claims ruling on the Company’s condemnation case (Index No. 112279), the lender may require the Company to repay all or a part of the balance outstanding. The Company agreed with the new lender to deposit \$250,000 of the proceeds from the loan in an escrow account until the satisfactory completion of environmental testing and related receipt of a clearance certificate, all of which was completed during the period ended September 30, 2011. Following the receipt of the clearance certificate, the escrow deposit of \$250,000 was released to the Company.

8. Retirement Plans:

The Company sponsors a Defined Benefit Retirement Plan for substantially all of its employees and records net periodic pension benefit / cost pro rata throughout the year. The following table provides the components of net periodic pension benefit cost for the plan for the three-months ended March 31, 2012 and 2011 including the required and expected contributions:

	Three Months Ended March 31	
	2012	2011
Pension Benefits		
Service Cost	\$45,712	\$31,974
Interest Cost	45,043	39,223
Expected Return on Plan Assets	(96,514)	(81,243)
Amortization of prior service costs	5,644	-
Amortization of Actuarial Loss	(1,040)	(301)
Net Periodic Pension Benefit (Income) Cost After Curtailments and Settlements	\$(1,155)	\$(10,347)
Minimum required contribution	\$-	\$-
Expected contribution	\$-	\$-

During the three months ended March 31, 2012, the Company did not make any contribution to the plan. The Company does not have a minimum required contribution for the December 31, 2012 plan year, and is not expecting to make a contribution for the related plan year.

9. Commitments and Contingencies:

Lease revenue commitments - The approximate 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, are as follows:

Twelve Months Ending March 31,	Amount
2013	\$3,541,000
2014	2,664,000
2015	1,877,000
2016	1,438,000
2017	1,046,000
Thereafter	2,750,000
	\$13,316,000

Other commitments and contingencies – As of March 31, 2012, other commitments and contingencies are summarized in the below table:

Employment contracts / agreements with severance commitment contingencies	\$1,372,000
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Employment agreements - The Company has employment contracts with two officers, Stephen V. Maroney and Peter Pitsiokos, and compensation arrangements with Gary Fitlin, the Chief Financial Officer.

10. Recent Accounting Pronouncements:

In May 2011, the FASB issued ASU 2011-04, “Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS”. The amendment results in a consistent definition of fair value and ensures the fair value measurement and disclosure requirements are similar between GAAP and International Financial Reporting Standards (“IFRS”). This amendment changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This amendment is effective for the Company on January 1, 2012. The adoption did not have a material effect on the Company’s consolidated financial position or results of operations.

In June 2011, the Financial Accounting Standards Board (“FASB”) issued ASU 2011-05, “Comprehensive Income (Topic 220), Presentation of Comprehensive Income”. ASU 2011-05 amends the presentation of other comprehensive income and the Statement of Consolidated Operations. Under this amendment, entities will be required to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Regardless of which reporting option is selected, the Company is required to present on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and the components of other comprehensive income are presented. The current option to report other comprehensive income and its components in the statement of changes in equity has been eliminated. This amendment is effective for the Company on January 1, 2012 and full retrospective application is required. The amendment did not have a material impact on its financial statements.

Effecting certain sections covered under ASU 2011-05, in December, 2011, the FASB issued ASU 2011-12, “Comprehensive Income (Topic 220)”, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in ASU 2011-05”. The pronouncement is effective for fiscal years and interim periods beginning January 1, 2012 with retrospective application for all comparative periods presented. The Company’s adoption of the new standard did not have a material effect on the Company’s consolidated financial position or results of operations.

In September 2011, the Financial Accounting Standards Board (“FASB”) issued ASU 2011-08, “Intangibles – Goodwill and Other (Topic 350), Testing Goodwill for Impairment”. ASU 2011-08 amends the required annual impairment testing of goodwill by providing an entity an option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test under Topic 350-24 and Topic 350-20-35-9 is unnecessary. However, if an entity concludes otherwise, then it is required to perform the impairment testing under Topic 350-24 by calculating the fair value of the reporting unit and comparing the results with the carrying amount. If the fair value exceeds the carrying amount, then the entity must perform the second step test of measuring the amount of the impairment test under Topic 350-20-35-9. An entity has the option to bypass the qualitative assessment and proceed directly to the two step goodwill impairment test. Additionally, the entity has the option to resume with the qualitative testing in any subsequent period. The amendment is effective for the Company on January 1, 2012. The adoption did not have a material effect on the Company’s consolidated financial position or results of operations.

In December 2011, the FASB issued ASU 2011-11, “Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities”. The guidance in this update requires the Company to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The pronouncement is effective for fiscal years and interim periods beginning on or after January 1, 2013 with retrospective application for all comparative periods presented. The Company’s adoption of the new standard is not expected to have a material effect on the Company’s consolidated financial position or results of operations.

11. Fair Value of Financial Instruments:

Assets and Liabilities Measured at Fair-Value – The Company follows authoritative guidance on fair value measurements, which defines fair-value, establishes a framework for measuring fair-value, and expands disclosures about fair-value measurements. The guidance applies to reported balances that are required or permitted to be measured at fair-value under existing accounting pronouncements.

The Company follows authoritative guidance on the fair value option for financial assets, 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.

The guidance 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, the guidance 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). 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.

The following table represents the carrying value and fair value of the Company's financial assets and liabilities as of March 31, 2012 and December 31, 2011, respectively.

Description	March 31, 2012		December 31, 2011	
	Carrying Value	Fair Value (Level 2)	Carrying Value	Fair Value (Level 2)
Investment in Marketable Securities	\$ 5,305,587	\$ 5,305,587	N/A	N/A

During 2012, the Company invested in hybrid mortgage backed securities with both AA and AAA ratings fully guaranteed by US government agencies (the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation). The fair values of mortgage backed securities originated by US government agencies are based on a pricing model that incorporates coupon type, prepayment speeds and type of collateral backing the securities. A discount rate is applied to the cashflows in the model to arrive at the fair value. Market quotes, current yields, and their spreads to benchmark indices are obtained for each type of security. With this data, a yield curve is derived for each category of mortgage backed securities. Each security is priced by discounting the cashflow stream by the appropriate yield found on the yield curve. As the significant inputs used to derive the value of the mortgage-backed securities are observable market inputs, the fair value of these securities are included in the Level 2 fair value hierarchy.

The Company estimates that fair value approximates carrying value for cash equivalents, rents receivable, prepaid and other assets, and accounts payable due to the relatively short maturity of the instruments.

The Company determined the fair value of its mortgage loans payable approximates book value. The Company based its decision by looking at current rates available based on the Company's estimate for nonperformance and liquidity risk, the Company's loan to value ratio, the maturity of the debt and the underlying security for the debt.

The Grove investment is a distressed asset operating in a distressed environment where an orderly transaction is not available. The Grove's lender, Prudential Industrial Properties, LLC ("Prudential"), commenced a foreclosure action against the Grove by filing a complaint in the Circuit Court of Palm Beach County to foreclose upon the Grove Property, alleging that the Grove has defaulted on its loan from Prudential and that the Grove is indebted to Prudential in the amount of over \$37 million in principal and over \$8 million in interest and fees. The facts and circumstances of the Grove make it unreasonable to present a fair value utilizing a Level 3 methodology, the lowest methodology which allows for broad assumptions; therefore, in accordance with the exception rules for thinly traded/lack of marketability of distressed assets, the Company is not presenting a fair value. The Company is accounting for the investment under the equity method. As of March 31, 2012, the carrying value of the Company's investment was \$0.

12. Risk Management – Use of Derivative Instruments:

The Company entered into the Interest Rate Swap (“Swap”) agreement on the mortgage of the Cortlandt Medical Center in November 2008, fixing the interest rate at 5.66% through November 1, 2011.

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The Swap was considered a derivative instrument. The Company utilized the Swap agreement to minimize its interest rate exposure on the Cortlandt Medical Center mortgage. The principal objective of this agreement was to limit the risks and/or costs associated with the Company's operating structure as well as to hedge the specific transaction. The Company had only one interest rate swap agreement with the purpose of hedging against a rise in LIBOR on the mortgage for the Cortlandt Medical Center. The counterparty to the arrangement was the bank which holds the mortgage for the Cortlandt Medical Center. The Company was potentially exposed to credit losses in the event of non-performance by the counterparty. However, the Company did not expect the counterparty to fail to meet its obligations due to the same party holding both the Mortgage and the Swap Agreement. The Company did not hedge credit or property value market risks through derivative financial instruments.

The Company formally assessed both at inception of the hedge, and on an ongoing basis, whether such derivatives are highly-effective in offsetting changes in cash flows of the hedged item. If management determined that a derivative is not highly-effective as a hedge, or if a derivative ceases to be a highly-effective hedge, the Company would discontinue hedge accounting prospectively. The related ineffectiveness would be charged to the Statement of Operations.

The valuation of these instruments was determined utilizing widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows for the derivative. This analysis includes the contractual terms of the derivative through the maturity date, and utilizes observable market based inputs including interest rate curves and implied volatilities. The fair value of the interest rate swap was based on market standard methodology of netting the discounted future inflows and outflows.

Following the expiration of the Interest Rate Swap Agreement, the Company's interest rate adjusted to 2.5% (225 basis points above the one month Libor rate (.25 % on March 31, 2012 and December 31, 2011). As part of the terms and conditions of the Cortlandt Mortgage, the Company has the option to enter into a new Interest Rate Swap Agreement throughout the term of the loan. Based on the current economic environment the Company has not entered into a new Interest Rate Swap Agreement.

13. Accumulated Other Comprehensive Income (Loss):

Accumulated other comprehensive income as of March 31, 2012 and December 31, 2011 was \$247,407 and \$292,031, respectively. The balances were comprised of the following:

	March 31, 2012	December 31, 2011
Unrecorded loss on investments	\$ (44,624)	\$ -
Unrecorded income on pension	292,031	292,031
Accumulated other comprehensive income	\$ 247,407	\$ 292,031

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 Quarterly Report are to this Quarterly Report on Form 10-Q for the three-months ended March 31, 2012.

Forward Looking Statements. The statements made in this Form 10-Q that are not current or 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," "project

“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 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 Quarterly Report, or in the documents it incorporates by reference into this Quarterly 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.

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Overview:

General: We are a self-managed and self-administered real estate investment trust formed under the laws of the State of New York. We operate 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 our rental properties are subject to net leases in which the tenant must reimburse Gyrodyne for a portion of or all or substantially all of the costs and /or cost increases for utilities, insurance, repairs and maintenance, and real estate taxes.

As of March 31, 2012 the Company had 100% ownership, directly or indirectly, in three medical office parks, comprising an aggregate of approximately 131,000 rentable square feet and a multitenant industrial park comprising approximately 128,000 rentable square feet. In addition, the Company has approximately 68 acres of property located in St. James, New York, approximately 10 of which are utilized by the industrial park and the balance remains undeveloped. Furthermore, the Company has an estimated 9.32% limited partnership in a limited partnership which owns an undeveloped Florida property called "the Grove Property".

Our revenues and cash flows are generated predominantly from property rent receipts. Growth in revenues and cash flows is directly correlated to our ability to (1) re-lease suites that are vacant or may become vacant at favorable rates, (2) successfully conclude the condemnation litigation lawsuit, and (3) enhance our existing income producing assets through additional investment.

Our properties are concentrated in New York State and Northern Virginia. We compete with a large number of real estate property owners and developers, some of which may be willing to accept lower returns on their investments. The principal factors of competition are rents charged, attractiveness of location, the quality of the property and breadth and quality of services provided. Our success depends upon, among other factors, trends of the national, regional and local economies, financial condition and operating results of current and prospective tenants and customers, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population trends. See "Part I" in our Annual Report on Form 10-K for the year ended December 31, 2011 for additional information regarding these factors.

The economic recession and illiquidity and volatility in the financial and capital markets from 2008 to present has continued to negatively affect substantially all businesses, including ours. Although signs of an economic recovery beginning in 2010 through early 2012 have emerged, it is not possible for us to quantify the timing and impact of the recovery on our future financial results. The length and depth of the economic recession combined with the slow economic recovery, has continued to negatively impact the real estate industry. Additionally, the Company stated in its 2010 and 2011 periodic filings that it believes the full impact of the economic downturn has not yet been fully absorbed by the real estate market, partially attributable to the Company's belief that lease commitments, by their very nature, expire over time resulting in the vacancy impact of an economic slowdown occurring over a similar period of time as tenants cannot reduce their space demands until their leases expire. The continuation of negative absorption rates into the first quarter in many regions across the country, including Long Island, continue to confirm the impact of the economic volatility. While Gyrodyne's total rented square footage grew throughout the recession, the continued economic volatility has resulted in a reduction in its total lease commitment revenue stemming from a combination of lower rental rates and a drop in the average remaining life of its leases.

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 downward pressure on our common stock price. As a result, our business continues to be impacted by factors including (1) difficulty obtaining financing to renovate or expand our current real estate holdings, (2) increased challenges in re-leasing space, and (3) potential risks stemming from late rental receipts, tenant

defaults and tenant bankruptcies.

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Health Care Legislation: The Federal health care legislation enacted in 2010 will potentially affect medical office real estate due to the direct impact on its tenant base. While the impact is not expected to be immediate due to the multi-year phase in period of the legislation, medical professionals are reviewing their real estate options which include remaining status quo, increasing tenant space to address a higher volume of patients as well as combining practices with other professionals. As a result, our business could be impacted by factors including (1) difficulty transitioning doctors to longer term leases, (2) difficulty raising rates and (3) increased challenges in re-leasing space.

As of March 31, 2012, the average effective rental revenue per square foot adjusted for tenant improvements was \$20.13 compared to \$20.22 on December 31, 2011. The Company defines the effective revenue per square foot as the annual rate per square foot stated in the lease reduced by the average annual tenant improvement allowance provided for in such leases.

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 long term 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 operating cash flow;
- pursuing the re-zoning effort of the Flowerfield property to maximize its value;
- limiting our use of capital to that which preserves the market value of our real estate portfolio;
- maximizing our working capital without materially increasing our debt service requirements; and
 - diligently managing the condemnation lawsuit.

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

First Quarter 2012 Transaction Summary

The following summarizes our significant transactions and other activity during the three months ended March 31, 2012.

Investments – The Company invested \$5.4 million in hybrid mortgage backed securities with AAA rating fully guaranteed by US government agencies (the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation). The portfolio is currently generating a current yield of approximately 2%.

Leasing – During the three months ended March 31, 2012, the Company executed 13 lease renewals encompassing approximately 16,000 square feet, and approximately \$261,000 in annual revenue. In addition, the Company entered into 1 new lease encompassing approximately 1,000 square feet and \$30,000 in annual revenue. The increase in revenue from its new leases and contractual annual increases was offset by 6 lease terminations encompassing approximately 8,000 square feet and approximately \$181,000 in annual revenue. The Company generated an increase in net deferred revenue of approximately \$27,000.

The new leases and lease extensions signed during the first quarter included tenant improvement allowances which the Company estimates at a cost of less than \$10,000, and no significant rent abatements. There were no significant lease commissions paid by the Company during the first quarter.

The continued economic volatility for small businesses and medical practitioners have impacted property management firms, including the Company's ability to renew leases at comparable rates if at all, without providing either rent abatements or comparable other lease incentives. During 2011 and early 2012, medical office parks and industrial parks experienced degradation in both rental rates and occupancy. During the quarter, rental revenues were \$1,187,267 and \$1,195,290 for the three months ended March 31, 2012 and December 31, 2011, respectively, a quarter over quarter decrease of \$8,023. Although the Company successfully mitigated the decreased revenues during the quarter-ending March 31, the Company continues to experience challenges to maintain both rental rates and occupancy.

Re-tenanting vacant space, renewing tenants, and transitioning tenants to longer term leases has resulted in total lease commitments as of March 31, 2012 and December 31, 2011 of \$13,316,000 and \$13,828,000, respectively, a decrease of \$512,000. The decrease is largely due to the annual revenue from 1 new lease being significantly less than the revenue reduction stemming from 6 terminations. During the first quarter the Company did not offer significant tenant improvements to attract new tenants. However, if the challenges on reletting space continues, the Company may offer tenant improvements in exchange for signing long term lease commitments.

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Condemnation lawsuit – The State filed a motion dated December 28, 2011 with the Appellate Division seeking leave to reargue or, alternatively, leave to appeal to the Court of Appeals, the November 22, 2011 Decision and Order of the Appellate Division which affirmed the Judgment of the Court of Claims entered in favor of the Company. On January 11, 2012, the Company filed with the Appellate Division an Affirmation of Company Counsel in Opposition to the State’s Motion for Reargument or in the Alternative Leave to Appeal. The foregoing motion and affirmation were included as exhibits to Current Reports on Form 8-K filed by the Company with the Commission and are also available on the Company’s website at <http://www.gyrodyne.com>.

On February 17, 2012, the Appellate Division denied the State’s Motion for Reargument or in the Alternative Leave to Appeal.

On March 23, 2012, the State filed with the Court of Appeals of the State of New York a Notice of Motion and Memorandum of Law in Support of Motion for Leave to Appeal the November 22, 2011 decision and order of the Appellate Division of the Supreme Court, Second Department. On April 6, 2012, the Company filed a Memorandum of Law with the Court of Appeals in opposition to the State’s motion seeking leave from the Court of Appeals to appeal the Appellate Division’s November 22, 2011 decision.

As a result of the State’s filing with the Court of Appeals, the amount of any final award and the timing of payment are unknown at this time. The Company will continue to pursue its rights vigorously, seeking payment in accordance with the decisions of the Court of Claims and the Appellate Division and any further determinations.

The Company has not recorded any gain or loss provision or liability related to this litigation at March 31, 2012, with the exception of accounts payable related to professional fees incurred.

The Grove

On March 18, 2011, the Grove’s lender, Prudential Industrial Properties, LLC (“Prudential”), commenced a foreclosure action against the Grove by filing a complaint in the Circuit Court of Palm Beach County to foreclose upon the Grove Property, alleging that the Grove has defaulted on its loan from Prudential and that the Grove is indebted to Prudential in the amount of over \$37 million in principal and over \$8 million in interest and fees. The Grove continues to operate while its management attempts to negotiate a resolution acceptable to all parties. The Company is a limited partner in the Grove and is not a guarantor of any debt related to the Grove. The investment is held in a taxable REIT subsidiary where the Company has a \$1,315,000 deferred tax liability related to the Grove. The deferred tax liability represents taxable losses not yet recorded pursuant to the Equity Method of Accounting.

Critical Accounting Policies

Management’s discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally acc