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GYRODYNE CO OF AMERICA INC  
Form 10QSB  
February 28, 2005

US Securities and Exchange Commission  
Washington, D.C. 20549

Form 10-QSB

(Mark One)

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

For the quarterly period ended JANUARY 31, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-1684

Gyrodyn Company of America, Inc.  
(Exact name of small business issuer as specified in its charter)

New York  
(State or other jurisdiction of  
incorporation or organization)

11-1688021  
(IRS Employer Identification No.)

102 Flowerfield, St. James, N.Y. 11780  
(Address of principal executive offices)

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

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12,13 or 15 (d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 1,208,870 shares of common stock, par value \$1.00 per share, as of January 31, 2005

Transitional Small Business Disclosure Format (Check One): Yes  No

INDEX TO QUARTERLY REPORT  
QUARTER ENDED JANUARY 31, 2005

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	Seq. Page
Form 10-QSB Cover	1
Index to Form 10-QSB	2
Part I Financial Information	3
Item I Financial Statements	3
Consolidated Balance Sheet (unaudited)	3
Consolidated Statements of Operations (unaudited)	4
Consolidated Statements of Cash Flows (unaudited)	5
Footnotes to Consolidated Financial Statements	6
Item 2 Management's Discussion and Analysis or Plan of Operation	8
Item 3 Controls and Procedures	12
Part II - Other Information	12
Item 4 Submission of Matters to a Vote of Security Holders	12
Item 5 Other Information	12
Item 6 Exhibits	12
Signatures	13
Exhibit 31.1 Rule 13a-14(a)/15d-14(a) Certification	14
Exhibit 32.1 CEO/CFO Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	15

Seq. Page 2

Part I Financial Information  
Item I Financial Statements

GYRODYNE COMPANY OF AMERICA, INC.  
AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
(UNAUDITED)

ASSETS	January 31, 2005 -----
REAL ESTATE	
Rental property:	
Land	\$ 4,250
Building and improvements	3,925,421

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Machinery and equipment	137,414
	-----
	4,067,085
Less accumulated depreciation	3,378,422
	-----
	688,663
	-----
Land held for development:	
Land	792,201
Land development costs	4,284,571
	-----
	5,076,772
	-----
Total real estate, net	5,765,435
CASH AND CASH EQUIVALENTS	1,242,726
RENT RECEIVABLE, net of allowance for doubtful accounts of \$88,163	149,201
MORTGAGE RECEIVABLE	1,700,000
PREPAID EXPENSES AND OTHER ASSETS	395,971
PREPAID PENSION COSTS	1,256,484
	-----
	\$ 10,509,817
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
LIABILITIES:	
Accounts payable and accrued expenses	\$ 251,512
Deferred gain on sale of real estate	1,486,460
Tenant security deposits payable	207,612
Revolving credit line	696,287
Loans payable	20,997
Deferred income taxes	1,601,292
	-----
Total liabilities	4,264,160
	-----
STOCKHOLDERS' EQUITY:	
Common stock, \$1 par value; authorized 4,000,000 shares; 1,531,086 shares issued	1,531,086
Additional paid-in capital	7,824,849
Deficit	(1,106,785)
	-----
	8,249,150
Less the cost of 322,216 shares of common stock held in the treasury	(2,003,493)
	-----
Total stockholders' equity	6,245,657
	-----
	\$ 10,509,817
	=====

See notes to consolidated financial statements

Seq. Page 3

GYRODYNE COMPANY OF AMERICA, INC.  
AND SUBSIDIARIES

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## CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Nine Months Ended January 31,		Three Months Ended January 31,	
	2005	2004	2005	2004
REVENUE FROM RENTAL PROPERTY	\$ 1,534,315	\$ 1,622,048	\$ 506,771	\$ 521,295
<hr style="border-top: 1px dashed black;"/>				
RENTAL PROPERTY EXPENSES:				
Real estate taxes	114,742	105,717	39,508	36,598
Operating and maintenance	474,129	357,426	182,581	129,326
Interest expense	29,516	30,147	10,523	8,897
Depreciation	54,175	58,512	18,059	19,593
	672,562	551,802	250,671	194,414
INCOME FROM RENTAL PROPERTY	861,753	1,070,246	256,100	326,881
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GENERAL AND ADMINISTRATIVE	1,335,841	1,185,540	528,702	392,200
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LOSS FROM OPERATIONS	(474,088)	(115,294)	(272,602)	(65,319)
<hr style="border-top: 1px dashed black;"/>				
OTHER INCOME:				
Interest income	80,380	83,465	26,260	28,527
Gain on sale of equipment	12,000	0	12,000	0
Gain on sale of real estate	87,439	0	87,439	0
	179,819	83,465	125,699	28,527
LOSS BEFORE INCOME TAXES	(294,269)	(31,829)	(146,903)	(36,792)
BENEFIT FOR INCOME TAXES	(117,708)	(12,732)	(58,762)	(14,717)
<hr style="border-top: 1px dashed black;"/>				
NET LOSS	\$ (176,561)	\$ (19,097)	\$ ( 88,141)	\$ (22,075)
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NET LOSS PER COMMON SHARE:				
Basic	\$ (0.15)	\$ (0.02)	\$ (0.07)	\$ (0.02)
Diluted	\$ (0.15)	\$ (0.02)	\$ (0.07)	\$ (0.02)
<hr style="border-top: 3px double black;"/>				
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	1,170,902	1,127,914	1,186,418	1,118,590
Diluted	1,170,902	1,127,914	1,186,418	1,118,590
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See notes to consolidated financial statements

Seq. Page 4

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

	Nine Months Ended January 31,	
	----- 2005 ----	----- 2004 ----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (176,561)	\$ (19,097)
	-----	-----
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	85,978	89,331
Bad debt expense	54,000	5,000
Deferred income tax benefit	(117,708)	(34,674)
Stock compensation	0	76,606
Pension expense	169,151	177,652
Gain on sale of equipment	(12,000)	0
Gain on sale of real estate	(87,440)	0
Changes in operating assets and liabilities:		
Increase in assets:		
Land development costs	(650,258)	(821,484)
Accounts receivable	(110,119)	(132,732)
Prepaid expenses and other assets	(193,722)	(167,311)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(16,488)	80,389
Income taxes payable	6,885	0
Tenant security deposits	12,636	(3,762)
	-----	-----
Total adjustments	(859,085)	(730,985)
	-----	-----
Net cash used in operating activities	(1,035,646)	(750,082)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment	(13,394)	(29,754)
Proceeds from sale of equipment	12,000	0
Proceeds from mortgage receivable	100,000	0
	-----	-----
Net cash provided by (used in) investment activities	98,606	(29,754)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of loans payable	(7,956)	(14,837)
Loan origination fees	0	73,519
Proceeds from exercise of stock options	625,079	269,438
	-----	-----
Net cash provided by financing activities	617,123	328,120
	-----	-----

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Net decrease in cash and cash equivalents	(319,917)	(451,716)
Cash and cash equivalents at beginning of period	1,562,643	2,231,317
	-----	-----
Cash and cash equivalents at end of period	\$ 1,242,726	\$ 1,779,601
	=====	=====

See notes to consolidated financial statements

Seq. Page 5

### FOOTNOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Basis of Quarterly Presentations:

The accompanying quarterly financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The financial statements of the Registrant included herein have been prepared by the Registrant pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, reflect all adjustments which are necessary to present fairly the results for the three and nine month periods ended January 31, 2005 and 2004.

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 financial statements and footnotes therein included in the audited annual report on Form 10-KSB as of April 30, 2004.

The results of operations for the three and nine month periods ended January 31, 2005 are not necessarily indicative of the results to be expected for the full year.

#### 2. Principle of Consolidation:

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

#### 3. Earnings Per Share:

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

The following is a reconciliation of the weighted average shares:

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	Nine months ended January 31,		Three Months Ended January 31,	
	2005	2004	2005	2004
Basic	1,170,902	1,127,914	1,186,418	1,118,59
Effect of dilutive securities	0	0	0	
Diluted	1,170,902	1,127,914	1,186,418	1,118,59

4. Income Taxes:

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

5. Revolving Credit Note:

The Company has a \$1,750,000 revolving credit line with a bank, bearing interest at a rate of prime plus one percent which was 6.25% at January 31, 2005. The line is secured by certain real estate and expires on June 1, 2006.

6. Stock Options:

We have elected the disclosure only provisions of Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") in accounting for our employee stock options. Accordingly, no compensation expense has been recognized. Had we recorded compensation expense for the stock options based on the fair value at the grant date for awards in the three and nine months ended January 31, 2005 and 2004 consistent with the provisions of SFAS 123, our net loss and net loss per share would have been adjusted as follows:

Seq. Page 6

	Nine Months Ended		Three Months
	January, 31		January
	2005	2004	2005
Net loss, as reported	\$ (176,561)	\$ (19,097)	\$ (88,141)
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	0	(95,000)	0
Pro forma net loss	\$ (176,561)	\$ (114,097)	\$ (88,141)
Net loss per share:			
Basic - as reported	\$ (0.15)	\$ (0.02)	\$ (0.07)

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Basic - pro forma	\$	(0.15)	\$	(0.10)	\$	(0.07)
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Diluted - as reported	\$	(0.15)	\$	(0.02)	\$	(0.07)
<hr style="border-top: 1px dashed black;"/>						
Diluted - pro forma	\$	(0.15)	\$	(0.10)	\$	(0.07)
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### 7.Shareholder Rights Agreement:

On August 10, 2004, the Board of Directors of the Company adopted a Shareholder Rights Agreement and declared a dividend distribution of one right for each outstanding share of common stock of the Company held by stockholders of record on August 27, 2004. Each right entitles the holder to purchase from the Company one share of the Company's common stock at an exercise price of \$75.00 per share. Initially the rights will not be exercisable, certificates will not be sent to stockholders, and the rights will automatically trade with the common stock. The principal terms of the Shareholder Rights Agreement are as follows:

- a. Unless previously redeemed by the Board of Directors, the rights become exercisable upon the earlier of the tenth business day following the date ("Stock Acquisition Date") on which there is a public announcement that a person or group of persons ("Acquiring Person") has acquired beneficial ownership of 20% or more of the outstanding common stock of the Company or the tenth business day after the date an Acquiring Person has offered to purchase 20% or more of the Company's outstanding common stock.
- b. If, after the time that a person or group of persons becomes an Acquiring Person, the Company were to be acquired in a merger or other business combination or more than 50% of the assets or earning power of the Company and its subsidiaries were to be sold or transferred, each holder of a right, other than the Acquiring Person, will have the right to receive, upon payment of the exercise price, that number of shares of common stock of the acquiring company having a market value at the time of the transaction equal to two times the exercise price.
- c. At any time prior to the acquisition by an Acquiring Person of 50% or more of the outstanding common stock, the Board of Directors of the Company may exchange the rights (other than rights owned by an Acquiring Person), in whole or in part, at an exchange ratio of one share of common stock per right (subject to adjustment).
- d. At any time prior to the tenth business day after the Stock Acquisition Date (or such later date as the Board of Directors may determine), the Company may redeem the rights at a price of \$0.005 per right.
- e. The Company may amend the rights in any manner, with certain exceptions.
- f. Until a right is exercised, the holder will have no rights as a stockholder of the Company, including the right to vote or to receive dividends.
- g. The rights will expire at the close of business on August 11, 2014 or, if distributed before August 11, 2014, at the close of business on the 90th day following the distribution date.



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### 8. Retirement Plans:

The Company records net periodic pension benefit cost pro rata throughout the year. The following table provides the components of net periodic pension benefit cost for the plan for the three and nine months ended January 31, 2005 and 2004:

	Nine Months Ended		Three Months Ended	
	January, 31		January, 31	
	2005	2004	2005	2004
Pension Benefits				
Service Cost	\$ 97,475	\$ 65,038	\$ 32,492	\$ 21,679
Interest Cost	96,870	89,415	32,290	29,805
Expected Return on Plan Assets	(124,372)	(94,625)	(41,458)	(31,542)
Amortization of Prior-Service Cost	54,123	54,554	18,615	18,186
Amortization of Net Loss	45,055	63,271	15,019	21,090
Net Periodic Benefit Cost After Curtailments and Settlements	\$ 169,151	\$ 177,653	\$ 56,958	\$ 59,218

During the nine months ended January 31, 2005, the Company made no contributions to the plan. The Company has no minimum required contribution for the April 30, 2005 plan year.

### 9. Recent Accounting Pronouncements:

In December 2004, the FASB issued Statement No. 123(R), ("FAS 123(R)") "Share-Based Payment". This statement replaces FASB Statement No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". FAS 123(R) covers a wide range of share-based compensation, including stock options, and requires that the compensation cost relating to share-based transactions be measured at fair value and recognized in the financial statements. Public entities filing as small business issuers will be required to apply Statement 123(R) in the first interim or annual reporting period beginning after December 15, 2005. Management is evaluating the impact that this Statement will have on the Company's consolidated financial statements.

#### Item 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

- (a) Not Applicable
- (b) MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The statements made in this Form 10-QSB 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

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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 risk inherent in the Long Island, New York real estate market, the ability to obtain additional capital and other risks detailed from time to time in our SEC reports. We assume no obligation to update the information in this Form 10-QSB.

### Critical Accounting Policies

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

Seq. Page 8

results could differ from these estimates. In addition, other companies may utilize different estimates, which may impact comparability of the Company's results of operations to those of companies in similar businesses.

### Revenue Recognition

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

### Real Estate

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

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

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

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Real estate held for development is stated at the lower of cost or net realizable value. In addition to land, land development and construction costs, real estate held for development includes interest, real estate taxes and related development and construction overhead costs which are capitalized during the development and construction period.

Net realizable value represents estimates, based on management's present plans and intentions, of sale price less development and disposition cost, assuming that disposition occurs in the normal course of business.

### Long Lived Assets

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

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

### Stock-Based Compensation

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, to account for stock-based employee compensation plans and reports pro forma disclosures in its Form 10-KSB filings by estimating the fair value of options issued and the related expense in accordance with SFAS No. 123. Under this method, compensation cost is recognized for awards of shares of common stock or stock options to directors, officers and employees of the Company only if the quoted market price of the stock at the grant date (or other measurement date, if later) is greater than the amount the grantee must pay to acquire the stock.

### RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED JANUARY 31, 2005 AS COMPARED TO THE THREE AND NINE MONTHS ENDED JANUARY 31, 2004

The Company is reporting a net loss of \$88,141 for the quarter ended January 31, 2005 compared to a net loss of \$22,075 for the same period last year and a net loss of \$176,561 for the nine month period then ended; the net loss for the same nine month period last year amounted to \$19,097.

Seq. Page 9

Diluted per share losses amounted to \$(0.07) and \$(0.02) for the three months ended January 31, 2005 and 2004, respectively, and \$(0.15) and \$(0.02) for the nine month periods of 2005 and 2004, respectively.

Revenue from rental property totaled \$506,771 for the current three month period which is \$14,524 below the \$521,295 posted during the same quarter last year.

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For the nine month reporting period, revenues totaled \$1,534,315 and reflect an \$87,733 shortfall to the \$1,622,048 generated during the first nine months of the prior year. As we have previously reported, rental revenues have been impacted by renegotiated lease terms with a major tenant who required less space and certain temporary rent concessions to another. For the quarter ended January 31, 2005, revenues have been reduced by \$6,219 and \$28,546 by the renegotiated lease and the temporary concessions, respectively. On a nine month year to date basis, the renegotiated lease has reduced revenues by \$56,863 while the rent concessions have had an \$85,638 negative impact. Evidenced by the fact that the decline in revenues for both reporting periods is less than the total of these two events, new tenancies accounting for \$124,200 in annualized revenues, which began to materialize after May 2004, have helped to mitigate the impact associated with the renegotiated lease and the temporary concessions. We believe that prior to that timeframe, the uncertainties brought about by the threat of an eminent domain condemnation of the entire 314 acre Flowerfield property by Stony Brook University had impacted our ability to attract tenants and contributed to the need to negotiate the rent concessions previously mentioned. May 2004 marked the announcement by the University that it would seek a partial condemnation of 246 acres, leaving a significant portion of the rental property intact, and may have removed some of the doubt surrounding the future of Flowerfield tenancies.

Rental property expenses increased for both the three and nine month reporting periods. For the quarter ending January 31, 2005, expenses totaled \$250,671 which is \$56,257 over the \$194,414 reported for the same period last year. Operating and maintenance costs account for \$53,255 of the increased expenses and include an \$18,546 increase in property and casualty insurance premiums. Other contributing factors include increases in building and grounds maintenance of \$24,942, salaries and benefits of \$7,813, real estate taxes of \$2,910, and interest expense of \$1,626.

Rental property expenses totaled \$672,562 and \$551,802 for the nine months ending January 31, 2005 and 2004, respectively, representing a \$120,760 increase over the prior year. The major contributing factor again is a \$116,703 increase in operating and maintenance expenses accompanied by a \$9,025 increase in real estate taxes and a reduction in depreciation expenses amounting to \$4,337. Contributing factors to the increased operating and maintenance costs include increases in property and casualty insurance premiums of \$75,124, building and grounds maintenance of \$36,956, and salaries and benefits of \$13,643. Expenses associated with equipment maintenance declined by \$9,409 during the period.

As a result of the foregoing, income from rental property declined for both the three and nine month reporting periods, totaling \$256,100 compared to \$326,881 for the quarter ending January 31, 2005 and 2004, respectively, and \$861,753 compared to \$1,070,246 for the nine month periods of 2005 and 2004, respectively.

As in the case of the rental property expenses, general and administrative expenses increased during both the three and nine month reporting periods. Reflecting primarily the costs associated with establishing a shareholder rights plan, general and administrative expenses increased by \$136,502 during the quarter ending January 31st, amounting to \$528,702 and \$392,200 in 2005 and 2004, respectively. Costs associated with establishing a shareholder rights plan accounted for \$67,236 of the increase as did a \$45,000 increase in the Company's bad debt reserve. Other contributing factors included increases of \$7,729 in salaries and benefits, \$7,486 in directors fees, and \$5,100 in legal and consulting fees. The additional entry to our bad debt reserve reflects our ongoing concern over delinquent rental payments in connection with the tenant to whom we have made the temporary rent concessions previously reported.

For the current nine month period, general and administrative expenses increased by \$150,301, totaling \$1,335,841 compared to \$1,185,540 for the same period last

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year. Again, the primary contributing factor to this increase was the shareholder rights plan which accounted for \$127,041 in expenses during the period. Additionally, the Company is reporting a \$49,000 increase in bad debt reserves, a \$9,825 increase in corporate governance expenses, increased insurance premiums of \$13,141, and a business travel expense increase of \$8,830. Salaries and benefits decreased by \$56,404 based on the net result of increases of \$20,202 being offset by the fact that the prior year included \$76,606 in stock option compensation.

As a result of the foregoing, the Company is reporting a \$272,602 loss from operations for the three month period ending January 31, 2005 compared to a loss of \$65,319 for the same period last year. For the current nine month reporting period, the loss from operations amounted to \$474,088 compared to \$115,294 for the same period last year.

Other income, which typically includes only income on interest bearing deposits and a mortgage receivable, reflects increases in both the three and nine month reporting periods as a result of the sale of a used piece of heavy equipment and a prepayment on a mortgage receivable. For the quarter, other income totaled \$125,699, an increase of \$97,172 over the \$28,527 posted last year. The increase is comprised of a \$12,000 gain on the sale of equipment and the recognition of an \$87,439 gain on the sale of real estate, resulting from a \$100,000 prepayment on a \$1.8 million mortgage receivable that matures in August 2005. Interest income declined during the quarter

Seq. Page 10

by \$2,267 from \$28,527 to \$26,260. For the nine months ending January 31st, other income totaled \$179,819 and \$83,465 for 2005 and 2004, respectively. This \$96,354 increase reflects the same sale of equipment and the gain from the mortgage prepayment coupled with a decline in interest income of \$3,085 from \$83,465 to \$80,380 for the current nine month reporting period.

As a result, the Company is reporting a loss before income taxes for both the three and nine month periods ending January 31, 2005. The current quarter reflects a loss of \$146,903 compared to a loss of \$36,792 for the same period last year. For the nine month reporting period, losses before income taxes amounted to \$294,269 and \$31,829 as of January 31, 2005 and 2004, respectively.

### LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was \$1,035,646 and \$750,082 during the nine months ended January 31, 2005 and 2004, respectively. The principal use of cash in both periods were funds used in connection with planning and pre-construction costs associated with land development plans for the golf course community. The Company also incurred costs included in the capitalized land development costs pertaining to legal, and communication costs to shareholders and the community regarding the potential Stony Brook University condemnation of the Company's real estate property.

Net cash provided by (used in) investing activities was \$98,606 and \$(29,754) during the nine months ended January 31, 2005 and 2004, respectively. The cash provided by investing activities in the current period represents a prepayment of \$100,000 to the Company's mortgage receivable as well as proceeds from the sale of heavy equipment for \$12,000. The use of cash in both periods was for the acquisition of property, plant and equipment.

Net cash provided by financing activities was \$617,123 and \$328,120 during the nine months ended January 31, 2005 and 2004, respectively. The net cash provided during the current and prior period was primarily the result of proceeds from

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the exercise of stock options. The prior period's results also reflect the refinancing of mortgage debt on the Flowerfield property. The Company has a \$1,750,000 revolving credit line with a bank, bearing interest at a rate of prime plus one percent which was 6.25% at January 31, 2005. The unused portion of the credit line of \$1,053,713 will enhance our financial position and liquidity and be available, if needed, to fund any unforeseen expenses associated with the Company's development plan.

As of January 31, 2005, the Company had cash and cash equivalents of \$1,242,726 as well as a mortgage receivable of \$1,700,000 due on August 8, 2005 and anticipates having the capacity to fund normal operating and administrative expenses, its regular debt service requirements and the remaining predevelopment expenses related to securing entitlements for the planned residential golf course community. To date, expenses associated with the development of the Flowerfield property, which have been capitalized, total \$4,284,571. As of January 31, 2005, the portion of those expenses attributable to the residential golf course community amount to \$2,140,651. Working capital, which is the total of current assets less current liabilities as shown in the accompanying chart, amounted to \$2,944,284 at January 31, 2005.

	January 31,	
	2005	2004
	----	----
Current assets:		
Cash and cash equivalents	\$1,242,726	\$1,779,601
Rent receivable, net	149,201	199,169
Mortgage receivable	1,700,000	0
Net prepaid expenses and other assets	318,892	290,148
	-----	-----
Total current assets	3,410,819	2,268,918
	-----	-----
Current liabilities:		
Accounts payable and accrued expenses	251,512	330,013
Tenant security deposits payable	207,612	234,442
Current portion of loans payable	7,411	11,007
	-----	-----
Total current liabilities	466,535	575,462
	-----	-----
Working capital	\$2,944,284	\$1,693,456
	=====	=====

Seq. Page 11

### LIMITED PARTNERSHIP INVESTMENT

Our limited partnership investment in the Callery Judge Grove, LP is carried on the Company's balance sheet at \$0 as a result of recording losses equal to the carrying value of the investment. This investment represents a 10.93% ownership interest in a limited partnership that owns a 3500+ acre citrus grove in Palm Beach County, Florida. The land is currently the subject of a change of zone application for a mixed use of residential, commercial and industrial development. We have no current forecast as to the likelihood of, or the timing required to achieve these entitlements that might impact the Grove's value.

### (c) OFF-BALANCE SHEET ARRANGEMENTS

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

### Item 3 CONTROLS AND PROCEDURES

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of January 31, 2005. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer has concluded that the disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

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

### Part II Other Information

Items 1 through 3 are not applicable to the November 1, 2004, through January 31, 2005, period.

### Item 4 Submission of Matters to a Vote of Security Holders

On November 11, 2004, the Company held its Annual Meeting of Shareholders, at which two proposals were submitted to a vote of security holders. The results of the vote for directors and the ratification of the Company's independent auditor were disclosed in the Company's Quarterly Report on Form 10-QSB for the quarter ended October 31, 2004.

### Item 5 Other Information

The Company's Chief Executive Officer and Chief Financial Officer has furnished a statement relating to this Form 10-QSB for the quarter ended January 31, 2005 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. The statement is attached hereto as Exhibit 31.1.

### Item 6 Exhibits

#### a. Exhibits:

31.1 Rule 13a-14(a)/15d-14(a) Certification.

32.1 CEO/CFO Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Seq. Page 12

### SIGNATURES

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

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GYRODYNE COMPANY OF AMERICA, INC.

Date: February 28, 2005

/s/ Stephen V. Maroney

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Stephen V. Maroney  
President, Chief Executive Officer  
and Treasurer

Date: February 28, 2005

/s/ Frank D'Alessandro

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Frank D'Alessandro  
Controller

Seq. Page 13