

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

GYRODYNE CO OF AMERICA INC  
Form 10-Q  
December 13, 2006

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

Form 10-Q

(Mark One)

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

For the quarterly period ended OCTOBER 31, 2006

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

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

Commission file number 0-1684

Gyrodyne Company of America, Inc.  
-----

(Exact name of small business issuer as specified in its charter)

New York  
-----

11-1688021  
-----

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer Identification No.)

1 Flowerfield, Suite 24, 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)

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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer

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

(Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date)

1,237,219 SHARES, \$1.00 PAR VALUE, AS OF NOVEMBER 30, 2006

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 QUARTER ENDED OCTOBER 31, 2006

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Part I Financial Information  
 Item I Financial Statements

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

ASSETS  
 -----

October 31, 2006  
 (Unaudited)  
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REAL ESTATE

Rental property:

Land	\$ 3,017	\$
Building and improvements	3,062,059	2
Machinery and equipment	205,274	

-----  
3,270,350 3

Less accumulated depreciation 2,521,105 2

-----  
749,245

Land held for development:

Land	558,466	
Land development costs	78,356	

-----  
636,822

Total real estate, net 1,386,067 1

CASH AND CASH EQUIVALENTS 2,957,854 27

INVESTMENT IN MARKETABLE SECURITIES 23,786,285

DEPOSIT ON PROPERTY 504,000

RENT RECEIVABLE, net of allowance for doubtful accounts of \$42,000 and \$30,000, respectively 88,344

INTEREST RECEIVABLE 469,564

PREPAID EXPENSES AND OTHER ASSETS 345,650

PREPAID PENSION COSTS 1,102,271 1

Total Assets \$ 30,640,035 \$ 30

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:

Accounts payable and accrued expenses \$ 798,245 \$

Tenant security deposits payable 161,751

Deferred income taxes 9,446,639 9

Total Liabilities 10,406,635 10

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY:

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

Additional paid-in capital 8,399,134 8

Accumulated Other Comprehensive Income: Unrealized Gain from Marketable Securities 137,798

Retained Earnings 12,005,868 12

-----  
22,073,886 21

Less cost of shares of common stock held in treasury; 293,867 shares (1,840,486) (1)

Total Stockholders' Equity 20,233,400 20

Total Liabilities and Stockholders' Equity \$ 30,640,035 \$ 30

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See notes to consolidated financial statements

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

	Six Months Ended October 31,		Three Months Ended October 31,	
	2006	2005	2006	2005
REVENUE FROM RENTAL PROPERTY	\$ 670,423	\$ 980,700	\$ 337,499	\$ 543,207
RENTAL PROPERTY EXPENSES:				
Real estate taxes	105,062	80,909	52,531	60,850
Operating and maintenance	236,747	181,501	120,087	115,250
Depreciation	28,286	37,371	14,794	17,100
TOTAL RENTAL PROPERTY EXPENSES	370,095	299,781	187,412	193,200
INCOME FROM RENTAL PROPERTY	300,328	680,919	150,087	350,007
GENERAL AND ADMINISTRATIVE (EXPENSES) AND OTHER INCOME:				
General and administrative (expenses)	(1,063,651)	(869,908)	(490,954)	(600,000)
Gain on sale of real estate	-	1,136,705	-	1,136,705
Interest income	694,028	30,881	361,745	30,881
TOTAL GENERAL AND ADMINISTRATIVE (EXPENSES) AND OTHER INCOME	(369,623)	297,678	(129,209)	567,586
(LOSS) INCOME BEFORE INCOME TAXES	(69,295)	978,597	20,878	907,613
(BENEFIT) PROVISION FOR INCOME TAXES	(27,718)	391,439	8,351	391,439
NET (LOSS) INCOME	\$ (41,577)	\$ 587,158	\$ 12,527	\$ 1,299,052
NET (LOSS) INCOME PER COMMON SHARE:				
Basic	\$ (0.03)	\$ 0.48	\$ 0.01	\$ 0.48
Diluted	\$ (0.03)	\$ 0.46	\$ 0.01	\$ 0.46
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	1,237,219	1,224,243	1,237,219	1,224,243
Diluted	1,237,219	1,270,968	1,280,945	1,270,968

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See notes to consolidated financial statements

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

	Six Months Ended October 31,	
	2006	2005
	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (41,577)	\$ 587,158
	-----	-----
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	38,533	59,202
Bad debt expense	12,000	12,000
Pension expense	31,226	58,015
Gain on sale of real estate	-	(1,136,705)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Land development costs	(69,649)	(218,651)
Accounts receivable	(7,171)	(43,386)
Interest receivable	451,821	-
Prepaid expenses and other assets	(39,410)	(43,065)
Prepaid pension costs	-	(50,000)
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(119,767)	66,355
Income taxes payable	-	231,405
Tenant security deposits	(2,135)	(10,761)
	-----	-----
Total adjustments	295,448	(1,075,591)
	-----	-----
Net cash provided by (used in) operating activities	253,871	(488,433)
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Costs associated with property, plant and equipment	(236,735)	-
Deposit on property	(504,000)	-
Proceeds from mortgage receivable	-	1,300,000
Purchase of marketable securities	(24,792,258)	-
Principle repayments on investment in marketable securities	1,224,288	-
	-----	-----
Net cash (used in) provided by investment activities	(24,308,705)	1,300,000
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of loans payable	-	(3,705)
Proceeds from exercise of stock options	-	252,378
	-----	-----

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Net cash provided by financing activities	-	248,673
Net (decrease) increase in cash and cash equivalents	(24,054,834)	1,060,240
Cash and cash equivalents at beginning of period	27,012,688	844,405
Cash and cash equivalents at end of period	\$ 2,957,854	\$ 1,904,645

See notes to consolidated financial statements

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### FOOTNOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Basis of Quarterly Presentations:

The accompanying quarterly financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The financial statements of the Registrant included herein have been prepared by the Registrant pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, reflect all adjustments which are necessary to present fairly the results for the three and six month periods ended October 31, 2006 and 2005.

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 fiscal year ended April 30, 2006.

The results of operations for the three and six month periods ended October 31, 2006 are not necessarily indicative of the results to be expected for the full year.

#### 2. Principle of Consolidation:

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

#### 3. Investment in Marketable Securities

The Company's marketable securities consist of debt securities classified as available-for-sale and reported at fair value, with the unrealized gains and losses excluded from operating results and reported as a separate component of stockholders' equity net of the related tax effect. These debt securities consist of agency hybrid mortgage backed securities on deposit with a major financial institution.

#### 4. Earnings Per Share:

Basic earnings per common share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the period.

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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:

	Six months ended October 31,		Three months ended October 31,	
	2006	2005	2006	2005
Basic	1,237,219	1,224,243	1,237,219	1,230,761
Effect of dilutive securities	-	46,725	43,726	47,529
Diluted	1,237,219	1,270,968	1,280,945	1,278,290

### 5. Income Taxes:

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

### 6. Revolving Credit Note:

The Company's line of credit has a maximum borrowing limit of \$1,750,000, bears interest at the lending institution's prime-lending rate ( 8.25 % at October 31, 2006) plus 1%, and is subject to certain financial covenants. The line is secured by certain real estate and expires on June 1, 2009. As of October 31, 2006 and 2005, \$1,750,000 was available under this agreement and the Company was in compliance with the financial covenants.

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### 7. Stock Options:

Effective May 1, 2006, the Company's stock options are accounted for in accordance with the recognition and measurement provisions of Statement of Financial Accounting Standards ("FAS") No. 123 (revised 2004), Share-Based Payment ("FAS 123(R)"), which replaces FAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, and related interpretations. FAS 123 (R) requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth within Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 107, which provides the Staff's views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies.

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

While FAS No. 123 encouraged recognition of the fair value of all stock-based

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awards on the date of grant as expense over the vesting period, companies were permitted to continue to apply the intrinsic value-based method of accounting prescribed by APB No. 25 and disclose certain pro-forma amounts as if the fair value approach of SFAS No. 123 had been applied. In December 2002, FAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of SFAS No. 123, was issued, which, in addition to providing alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation, required more prominent pro-forma disclosures in both the annual and interim financial statements. The Company complied with these disclosure requirements for all applicable periods prior to May 1, 2006.

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

As a result of the adoption of FAS 123 (R), the Company's results for the three and six month period ended October 31, 2006 include share-based compensation expense totaling \$0. Stock compensation expense recorded under APB No. 25 in the consolidated statements of operations for the three and six months ended October 31, 2005 totaled \$0.

The following table represents the Company's stock options granted, exercised and forfeited during the six months of fiscal 2007.

Stock Options	Number of Shares	Weighted Average Exercise price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	-----	-----	-----	-----
Outstanding at May 1, 2006	67,105	\$ 16.42	-	-
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited/expired	-	-	-	-
Outstanding at October 31, 2006	67,105	\$ 16.42	.98	\$1,908,713
	=====	=====	=====	=====
Vested and Exercisable at October 31, 2006	67,105	\$ 16.42	.98	\$1,908,713
	=====	=====	=====	=====

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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 six months ended October 31, 2006 and 2005:

Six Months Ended

Three Months Ended



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	October 31,		October 31,	
	2006	2005	2006	2005
Pension Benefits				
Service Cost	\$ 66,162	\$ 69,213	\$ 33,081	\$ 34,607
Interest Cost	63,268	62,638	31,634	31,319
Expected Return on Plan Assets	(118,318)	(114,112)	(59,159)	(57,056)
Amortization of Prior-Service Cost	20,114	36,369	10,057	18,185
Amortization of Net Loss	0	3,907	0	1,953
Net Periodic Benefit Cost After Curtailments and Settlements	\$ 31,226	\$ 58,015	\$ 15,613	\$ 29,008

During the six months ended October 31, 2005, the Company made a \$50,000 contribution to the plan. The Company has no minimum required contribution for the April 30, 2007 plan year.

9. Commitments and Contingencies

Lease commitments - The future minimum revenues from rental property under the terms of all noncancellable tenant leases, assuming no new or renegotiated leases are executed for such premises, for future years are approximately as follows:

Twelve Months Ending October 31,	Amount
2007	\$ 900,000
2008	517,000
2009	291,000
2010	255,000
2011	183,000
Thereafter	1,543,000
	\$ 3,689,000

Employment agreements - The Company has employment contracts with two officers that provide for annual salaries aggregating approximately \$381,000 and a severance payment equivalent to three years salary in the event of a change in control.

Land development contract - The Company entered into a Golf Operating and Asset Management Agreement (the "Agreement") with Landmark National ("Landmark") for the design and development of an 18-hole championship golf course community. As a result of the University's condemnation of the Flowerfield property, the Company has accrued a \$500,000 termination fee pursuant to the contract. The Company was advised by Landmark that it believes that it is entitled to 10% of all condemnation proceeds pursuant to a 10% incentive fee provision. The Company does not believe that the condemnation triggers the incentive fee and believes that Landmark's position is based upon an erroneous interpretation of the incentive fee provision. Both parties have agreed to participate in discussions that are aimed at resolving our differences. Those discussions began recently and are ongoing.

Purchase agreement - On October 12, 2006, the Company entered into a Contract of Sale (the "Contract") by and between the Company and Frank M. Pellicane Realty,

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LLC and Pelican Realty, LLC (collectively, the "Seller") to acquire land and buildings comprising, in significant part, a medical office complex known as Port Jefferson Professional Park in Port Jefferson Station, New York. The Contract relates specifically to ten office buildings, located at 1-6, 8, 9 and 11 Medical Drive and 5380 Nesconset Highway, which are situated on 5.16 acres with approximately 40,000 square feet of rentable space (the "Property") and a current occupancy rate of 97%. The purchase price per square foot is currently \$221.25 and the aggregate annual rental revenue from the property is currently \$888,000. The implied net operation income capitalization rate for this transaction is approximately 7.5%. Other than with respect to the Contract itself, there is no material relationship between the Company and the Seller.

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The purchase price for the Property is \$8.85 million, \$500,000 of which was paid as a refundable deposit upon the signing of the Contract, and the remainder, subject to any adjustments, is required to be paid at closing. The closing is expected to take place 45 days from the date of the Contract and is subject to customary representations and conditions. Under the Contract, the Company has the right to elect either to pay all cash at closing or apply to assume the terms of an existing mortgage loan due February 1, 2022 at a current interest rate of 5.75%. The Contract is subject to a 30-day inspection period during which the Company may, at its own expense, arrange for environmental and/or engineering inspections. The Company may terminate the Contract, for any or no reason, prior to the expiration of the inspection period.

Upon acquisition, the Company intends to continue to operate the office space pursuant to existing leases. At October 31, 2006, there were no deferred expenses recorded in relation to this transaction.

### 10. Recent Accounting Pronouncements:

In July 2006 the FASB issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), as an interpretation of SFAS No. 109, Accounting for Income Taxes. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109 and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has been met. FIN 48 also provides guidance on derecognition, classification, interest, penalties, accounting in interim periods, disclosure, and transition. FIN 48 will be effective beginning February 1, 2007. Differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption should be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The Company is still evaluating the impact, if any, the adoption of this interpretation will have on the Company's financial position, cash flows, and results of operations.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for the Company's fiscal year ending April 30, 2007. We do not expect SAB 108 to have a material impact on our consolidated financial statements.

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In September 2006, the FASB issued Statement No. 157 ("FAS 157") "Fair Value Measurements". This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. The changes to current practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

In September 2006, the FASB issued Statement No. 158 ("FAS 158") "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans--an amendment of FASB Statements No. 87, 88, 106, and 132(R)". This statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. The Company does not believe that adoption of this statement will have a material effect on its financial statements.

### Item 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The statements made in this Form 10-Q that are not historical facts contain "forward-looking information" within the meaning of the Private Securities Litigation Reform Act of 1995, and Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act") 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

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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 and Palm Beach County, Florida real estate markets, the ability to obtain additional capital in order to develop the Company's existing real estate and other risks detailed from time to time in its SEC reports. The Company assumes no obligation to update the information in this Form 10-Q.

Critical Accounting Policies

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

### Revenue Recognition

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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

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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.

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

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

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

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### Stock-Based Compensation

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Effective May 1, 2006, the Company's stock options are accounted for in accordance with the recognition and measurement provisions of Statement of Financial Accounting Standards ("FAS") No. 123 (revised 2004), Share-Based Payment ("FAS 123(R)"), which replaces FAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, and related interpretations. FAS 123 (R) requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth within Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 107, which provides the Staff's views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies.

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

### RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2006 AS COMPARED TO THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2005

The Company is reporting net income of \$12,527 for the quarter ending October 31, 2006 compared to net income of \$475,461 for the same period of the prior year and a net loss of \$41,577 for the six months then ended compared to net income of \$587,158 in the prior year.

Diluted per share earnings for the current quarter amounted to \$0.01 compared to \$0.37 in the prior year and a per share loss of \$(0.03) compared to earnings of \$0.46 for the six months ending October 31, 2006 and 2005, respectively.

Revenue from rental property declined in both the three and six month periods of the current year, amounting to \$337,499 and \$670,423, respectively, compared to \$486,166 and \$980,700 for the comparable periods last year. The decreases amounted to \$148,667 for the quarter and \$310,277 for the six month period. The decline in revenues was primarily caused by the condemnation which accounted for

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\$140,477 and \$280,955 for the three and six month periods, respectively.

Rental property expenses totaled \$187,412 for the quarter compared to \$151,713 during the prior year. For the most part, the increase of \$35,699 is attributed to maintenance and repairs of \$21,400 and real estate taxes of \$12,077 which were previously capitalized as a result of the filed plans to develop a residential golf course community. Following the condemnation of a major portion of that property, the taxes on the remaining acreage have been expensed. For the six month period, expenses increased by \$70,314 amounting to \$370,095 compared to \$299,781. As in the case of the quarterly results, the increase was due to maintenance and repairs of \$33,145, real estate taxes of \$24,153 and property and casualty insurance premiums of \$28,305 partially mitigated by savings in outside services of \$9,625.

As a result, income from rental property amounted to \$150,087 and \$334,453 for the three months ending October 31, 2006 and 2005, respectively, while income for the six month reporting period amounted to \$300,328 and \$680,919, respectively.

General and administrative expenses and other income reflect a net expense of \$129,209 for the quarter compared to income of \$457,981 for the same period last year, negatively impacting earnings by \$587,190. The major contributing factor to this decline is the fact that 2005 results included a gain on the sale of real estate totaling \$874,388. General and administrative expenses which increased by \$61,178 for the quarter, amounted to \$490,954 compared to \$429,776 for the same period last year. For the three months ended October 31, 2006, costs associated with the condemnation litigation accounted for \$27,127. In addition, fees for outside services and legal and consulting increased by \$98,668 as well as management and custody fees of \$9,926. For the quarter, interest income amounted to \$361,745 compared to \$13,369 during the prior year, an increase of \$348,376. This was complimented by reductions in corporate governance of \$47,797, pension expense of \$13,394 and the elimination of rent expense which totaled \$13,776.

For the six months ending October 31, 2006, general and administrative expenses and other income reflect a net expense of \$369,623 compared to income of \$297,678 for the same period last year, negatively impacting earnings by \$667,301. Again, the major contributing factor to this decrease is the aforementioned 2005 gain on the sale of real estate totaling \$1,136,705. General and administrative expenses amounted to \$1,063,651 compared to \$869,908 for the same six month period last year, an increase of \$193,743. Mirroring the quarterly results, the six month period included costs associated with condemnation litigation of \$98,169. Additionally, other contributing factors include fees for outside services and legal and consulting increases of \$214,374 as well management and custody fees which totaled \$19,843. The six month results include \$694,028 in interest income compared to \$30,881 for the same period last year. As in the case of the quarterly results, this increase of \$663,147 reflects the investment of proceeds from an advance payment relating to the November 2005 condemnation of 245.5 acres of Flowerfield property. In addition, there were reductions in corporate governance of \$74,328, pension expense of \$26,789 and the elimination of rent expense which totaled \$27,686.

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The increase, in both the three and six month periods, for outside services is \$36,427 and \$51,944, respectively, and is primarily attributable to the engagement of a consulting group for special projects which included the installation of a new accounting system. The increase in legal and consulting fees amounted to \$62,241 and \$162,430 for the three and six month periods, respectively, and reflect costs associated with services from our investment

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bankers, the planned conversion to a Real Estate Investment Trust ( REIT ), and various other corporate matters.

As a result, the Company is reporting income before taxes for the quarter ending October 31, 2006 totaling \$20,878 compared to \$792,434 during the prior year. For the six month reporting period, the Company is reporting a loss before taxes totaling \$69,295 compared to income before taxes of \$978,597 for the same period last year.

### LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by (used in) operating activities was \$253,871 and \$(488,433) during the six months ended October 31, 2006 and 2005, respectively. The cash provided by operating activities in the current period was primarily related to the receipt of a portion of the interest due from the State of New York on the condemnation advance payment. The primary use of cash in the prior period was primarily related to land development costs.

Net cash (used in) provided by investing activities were \$(24,308,705) and \$1,300,000 during the six months ended October 31, 2006 and 2005, respectively. The principal use of cash in the current period was primarily related to the investment in REIT qualified mortgage backed securities. The cash provided by investing activities in the prior period represents proceeds of \$1,300,000 to the Company's mortgage receivable.

Net cash provided by financing activities was \$0 and \$248,673 during the six months ended October 31, 2006 and 2005, respectively. The net cash provided during the prior period was primarily the result of proceeds from the exercise of stock options. 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 9.25% at October 31, 2006. The unused portion of the credit line, which is the total line of \$1,750,000, will enhance the Company's financial position and liquidity and be available, if needed, to fund any unforeseen expenses.

As of October 31, 2006, the Company had cash and cash equivalents of \$2,957,854 and anticipates having the capacity to fund normal operating and administrative expenses and its regular debt service requirements. Working capital, which is the total of current assets less current liabilities as shown in the accompanying chart, amounted to \$27,165,668 at October 31, 2006. Net prepaid expenses and other assets shown in the accompanying chart does not include \$26,033 and \$41,111 of furniture and fixtures, net, and loan origination fees, net, for the six months ended October 31, 2006 and October 31, 2005, respectively.

	October 31,	
	2006	2005
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,957,854	\$ 1,904,645
Investment in marketable securities	23,786,285	0
Deposit on property	504,000	0
Rent receivable, net	88,344	93,695
Interest receivable	469,564	0
Net prepaid expenses and other assets	319,617	163,244
	28,125,664	2,161,584
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	798,245	286,577
Tenant security deposits payable	161,751	218,523

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Income taxes payable	0	231,405
	-----	-----
Total current liabilities	959,996	736,505
	-----	-----
Working capital	\$ 27,165,668	\$ 1,425,079
	=====	=====

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### 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

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

### Item 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company believes there have been no significant changes in market risk from that disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2006.

### Item 4 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 October 31, 2006. 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. It should be noted that design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions regardless of how remote.

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

### Part II Other Information

Items 1 through 5 are not applicable to the three months ended October 31, 2006.



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Item 6 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.

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.

GYRODYNE COMPANY OF AMERICA, INC.

Date: December 12, 2006

/S/ Stephen V. Maroney  
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Stephen V. Maroney  
President, Chief Executive Officer  
and Treasurer

Date: December 12, 2006

/S/ Frank D'Alessandro  
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Frank D'Alessandro  
Controller

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