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GYRODYNE CO OF AMERICA INC
Form 10-K
March 15, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from MAY 1, 2006 to DECEMBER 31, 2006

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

(Address of principal executive offices)

11780

(Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act: NONE

Securities registered under Section 12(g) of the Exchange Act: COMMON STOCK,
\$1.00 PAR VALUE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined 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

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Rule 12b-2 of the Exchange Act). Yes [] No [X]

The aggregate market value of voting common stock held by non-affiliates of the registrant on June 30, 2006 was \$33,666,528. The aggregate market value was computed by reference to the closing price on such date of the common stock as reported on the NASDAQ Stock Market. Shares of common stock held by each executive officer and director and by each person who to the registrant's knowledge owns 5% or more of the outstanding voting stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

On February 15, 2007 1,242,310 shares of the Registrant's common stock, par value \$1 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this report on Form 10-K incorporates information by reference from the registrant's proxy statement for its Annual Meeting of Shareholders - Items 10, 11, 12, 13 and 14.

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PART I

Item 1 Business

The statements made in this Form 10-K that are not historical facts contain "forward-looking information" within the meaning of the Private Securities Litigation Reform Act of 1995, and Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended, which can be identified by the use of forward-looking terminology such as "may," "will," "anticipates," "expects," "projects," "estimates," "believes," "seeks," "could," "should," or "continue," the negative thereof, other variations or comparable terminology. Important factors, including certain risks and uncertainties, with respect to such forward-looking statements that could cause actual results to differ materially from those reflected in such forward-looking statements include, but are not limited to, the effect of economic and business conditions, including risks inherent in the Long Island, New York and Palm Beach County, Florida real estate markets, the ability to obtain additional capital in order to develop the existing real estate and other risks detailed from time to time in the Company's SEC reports. For a discussion of additional risk factors that are particular to our business, please refer to Part I, Item 1A Risk Factors. These and other matters we discuss in this Report, or in the documents we incorporate by reference into this Report, may cause actual results to differ from those we describe. The Company assumes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Business Development

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

The Company was, from its inception and for the next 25 years, engaged in design, testing, development, and production of coaxial helicopters primarily for the U.S. Navy. Following a sharp reduction in the Company's helicopter manufacturing business and its elimination by 1975, the Company began converting its vacant manufacturing facilities and established its rental property operation. The Company has since concentrated its efforts on the development of its real estate holdings in St. James, New York. The converted buildings consist of approximately 127,392 rentable square feet housing 46 tenants in space suitable for office, engineering, manufacturing, and warehouse use. The property, which is known as Flowerfield, consists of 68 acres. Approximately 10 acres are utilized for the rental property and the balance of 58 remains undeveloped.

In 2007, effective May 1, 2006, the Company intends to elect to be taxed as a real estate investment trust ("REIT") for federal and state income tax purposes. The Company plans to acquire, manage and invest in a diversified portfolio of

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real estate composed of office, industrial, retail and service properties primarily in the New York City Metropolitan area.

As a REIT, the Company is required to have a December 31, 2006 year end. As a result, the Company's financial statements have been prepared for the eight months ended December 31, 2006. In view of this change, this Form 10-K is a transition report and includes financial information for the eight month transition period ended December 31, 2006 and for the twelve month periods ended April 30, 2006, 2005 and 2004.

In 1965, the Company acquired a 20% limited partnership interest in Callery-Judge Grove, L.P., a New York limited partnership, which owns a 3,500+ acre citrus grove located in Palm Beach County, Florida, for a purchase price of \$1.1 million. The Company's percentage interest has since been diluted to approximately 11%. The investment has yielded distributions of approximately \$5.5 million in the aggregate. The property is the subject of a plan for a mixed use of residential, commercial, and industrial development which is under review by state and local municipal authorities.

On June 17, 2005, the Company retained the investment banking firm of Coady Diemar Partners to assist management and the Board of Directors in reviewing the Company's strategic options. On December 9, 2005, the Company presented at its 2005 annual shareholders meeting a strategic plan for the future direction of the Company. The objective of the plan is to position the Company so that it is best able to achieve one or more shareholder liquidity events in a reasonable period of time that would put the maximum amount of cash or marketable securities in the hands of the Company's shareholders in a tax efficient manner. The plan calls for achieving this objective by pursuing a conversion to a real estate investment trust, disposition and redeployment of the assets of the Company in a tax efficient manner, maximization of the value for the remaining 68 acres at Flowerfield, and vigorous pursuit of maximum value from the State of New York for the 245.5 acres of Flowerfield taken by eminent domain. Following the Company's planned conversion to a REIT, which the Company intends to complete in 2007, effective May 1, 2006, and so long as Gyrodyne qualifies for REIT tax status, the Company generally will not be subject to New York State and U.S. federal corporate income taxes on income and gain generated after May 1, 2006, the effective date of our REIT election, from investments in real estate, thereby reducing

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the Company's corporate-level taxes and substantially eliminating the double taxation on income and gain that usually results in the case of distributions as a C corporation.

On November 2, 2005, the State University of New York at Stony Brook (the "University") filed an acquisition map with the Suffolk County Clerk's office and vested title in approximately 245.5 acres of the Flowerfield Property pursuant to the New York Eminent Domain Procedure Law (the "EDPL"). On March 27, 2006, the Company received payment from the State of New York in the amount of \$26,315,000, which the Company had previously elected under the EDPL to accept as an advance payment for the property. Under the EDPL, both the advance payment and any additional award from the Court of Claims bear interest at the current statutory rate of 9% simple interest from the date of the taking through the date of payment subject to the courts discretion.

On May 1, 2006, the Company filed a Notice of Claim with the Court of Claims of the State of New York seeking \$158 million in damages from the State of New York resulting from the eminent domain taking by the University of the 245.5 acres of the Flowerfield property. See "Legal Proceedings".

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The Company invested the advance payment from the condemnation of \$26,315,000 in short term U.S. Government securities and interest bearing deposits which were valued at \$26,184,383 and \$238,593, respectively, as of April 30, 2006. Subsequently, the Company invested in agency hybrid mortgage-backed securities which are qualified REIT investments; at December 31, 2006, those investments, including related interest receivable, totaled \$23,937,093. The balance of the funds were placed in short term U.S. Government securities and interest bearing deposits which totaled \$2,617,565 at December 31, 2006.

On October 12, 2006, the Company entered into a Contract of Sale (the "Contract"), which was amended on January __, 2007, by and between the Company and Frank M. Pellicane Realty, 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") with a current occupancy rate of 97%. The purchase price per square foot is \$221.25 and the aggregate monthly rent flow from the property is currently \$73,941.50. Other than with respect to the Contract itself, there is no material relationship between the Company and the Seller.

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. 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 Company has applied for and has been approved to assume the mortgage if it so desires. The bank required an additional deposit of \$4,000 relating to the assumption of the existing mortgage. Upon acquisition, the Company intends to continue to operate the office space pursuant to existing leases. It is anticipated that the transaction will close in April 2007. The contract was amended in January 2007 to provide that the seller will be responsible for the cost of remediating the contaminated on-site sanitary waste disposal systems and stormwater drywells, which was discovered by the Company during the due diligence examination.

In accordance with the Internal Revenue Code ("IRC") section 1033, in on order to defer federal and state taxes on the gain from condemnation of the Flowerfield property, the Company must replace the condemned property by April 2009. The Port Jefferson Professional Park qualifies as replacement property under IRC section 1033.

The Company has filed an application to develop a gated, age restricted community on the remaining Flowerfield property that includes 39 single-family homes, 60 townhouses and 210 condominiums. Living space would range from 1,600 square feet for the smallest condominiums to 2,800 square feet for detached single-family homes. Amenities would include a clubhouse with recreation facilities, pedestrian and bicycle paths, and extensive landscaping. Prices are currently expected to range from \$850,000 to \$1.45 million per home.

The Company has engaged the firm of Platt Byard Dovell White Architects for design work. The firm enjoys an outstanding reputation for designing attractive residential and commercial properties. Leading the project will be Sam White, FAIA, a partner at the firm who is known specifically for his proven ability to blend historic context into new architecture.

The application asks for the zoning of approximately 62.4 acres to be changed from "light industrial" (approx. 55.5 acres) and "residential" (approx. 6.9 acres) to "planned residential." Another 4.3 acres of the property owned by the

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Company, while already zoned as "residential," would remain undeveloped. Total amount of open space remaining after development is expected to exceed 40 acres. As indicated in the application, the Company plans in the future to remove the industrial buildings currently in use at the appropriate time.

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According to an analysis obtained by the Company, the local road traffic caused by the residential development would be lower than the levels attributed to the current industrial operations. The development also would have a positive impact on the municipal tax base since the age-restricted nature of the community would not affect the local school population. The company estimates that 100 construction jobs and 15 permanent jobs would be created by the project.

On February 12, 2007, the Company entered into an agreement with Landmark National to terminate two agreements, the Golf Operating Agreement and the Asset Management Agreement, both dated April 9, 2002. In addition to Landmark agreeing not to pursue any claim under those agreements for 10% of all proceeds related to the condemnation and any future sale and/or development of the remaining Flowerfield acreage, Landmark agreed to provide consulting services in connection with the eminent domain litigation. In consideration for Landmark's agreement not to pursue the foregoing claims, for services previously provided, the Company paid Landmark \$2,000,000, \$500,000 of which was accrued by the Company during its year ended April 30, 2006. Landmark will receive an additional \$1,000,000 over the next thirty-six months, commencing on March 1, 2007, for general consulting, review of pertinent documents, consultations regarding land planning and economic feasibility studies and coordination with project engineers associated with the Company's claim for additional compensation. The Company has accrued \$1,500,000 as additional condemnation expense as of December 31, 2006. The Company intends to add the \$2,000,000 to the existing claim for additional compensation with regard to the condemnation.

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

References to the Company contained herein include its wholly owned subsidiaries, except where the context otherwise requires.

Description of the Company's Business

The Company manages its real estate operations and is a passive investor as a limited partner in the Callery Judge Grove, L.P., which owns a large citrus grove in Palm Beach County, Florida. The Company currently has a total of 8 full time employees involved in support of the real estate operation and development plans. Competition among industrial and office rental properties on Long Island is intense. There are numerous commercial property owners that compete with the Company in attracting tenants, many of which are substantially larger than the Company. See Item 1A, "Risk Factors" for a discussion of risk factors, and Item 2, "Properties" for a discussion regarding dependence on major tenants.

Real Estate

Gyrodyne owns a 68 acre site called Flowerfield, primarily zoned for light industry, which is located approximately 50 miles east of New York City on the north shore of Long Island. Flowerfield's location also places it in hydrological zone VIII, one of the most liberal with respect to effluent discharge rates.

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The Company currently has 127,392 square feet of rentable space located on approximately 10 acres of developed property at Flowerfield. As of December 31, 2006, there were 46 tenants, comprising 49 leases, renting space with an annual base rent of \$1,280,026. The majority of the Company's leases, 38 out of 49, are one year leases and represent approximately 55.6% of the total annual rent.

The Flowerfield property is located in Smithtown Township. Environmental studies have been updated and numerous other studies including archeological, ecological, and traffic have been conducted in connection with development plans -- all with no significant adverse findings. The Company believes that it does not incur material costs in connection with compliance with environmental laws. During the fiscal year ended April 30, 2006 ("Fiscal Year 2006") and the eight months ended December 31, 2006, the Company had no material expenses related to environmental issues.

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

The Company's initial participation in the Grove through its wholly owned subsidiary, Flowerfield Properties, Inc., represented a 20% limited partner's interest in the Grove. Based on three subsequent capital infusions in which the Company did not participate, the Company's share is now approximately 11%.

The original limited partner investment of \$1.1 million, which was made in 1965, has since yielded distributions of approximately \$5.5 million in the aggregate. Due to recurring losses of the Grove, the investment is carried on the books of the Company at \$0 as a result of recording the Company's pro-rata share of losses under the equity method of accounting. In fiscal 2000, when the Company's share

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of losses equaled the carrying value of the investment, the equity method of accounting was suspended, and no additional losses have been charged to operations.

Tax Status

In 2007, effective May 1, 2006, the Company intends to elect to be taxed as a REIT for state income tax and federal income tax purposes under section 856(c)(1) of the Internal Revenue Code (the "Code"). As a result of the election, the Company will convert to a December 31, fiscal year end. As long as the Company qualifies for taxation as a REIT, it generally will not be subject to federal and state income tax. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal and state income tax on its taxable income at regular corporate rates. Unless entitled to relief under specific statutory provisions, the Company will also be disqualified for taxation as a REIT for the four taxable years following the year in which it loses its qualification. Even if the Company qualifies as a REIT, it may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed income.

Competition

All of the rental properties owned by the Company are located in St. James, New York on the North Shore of Long Island in Smithtown Township. The Company competes in the leasing of office, engineering, manufacturing and warehouse space with a considerable number of other real estate companies, some of which

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may have greater marketing and financial resources than the Company. Principal factors of competition in the Company's rental property business are: the quality of properties, leasing terms (including rent and other charges and allowances for tenant improvements), attractiveness and convenience of location, the quality and breadth of tenant services provided and reputation as an owner and operator of quality office properties in its relevant market. Additionally, the Company's ability to compete depends upon, among other factors, trends in the national and local economies, investment alternatives, financial condition and operating results of current and prospective tenants, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population trends.

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

Environmental Matters

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

Insurance

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

Major Customers

For the eight months ended December 31, 2006, rental income from the three largest tenants represented 14%, 11% and 11% of total rental income. For the year ended April 30, 2006, rental income from the three largest tenants represented 11%, 9% and 9% of total rental income. For the year ended April 30, 2005, rental income from the three largest tenants represented 14%, 13% and 10% of total rental income. For the year ended April 30, 2004, rental income from the three largest tenants represented 17%, 13% and 12% of total rental income.

Item 1A Risk Factors

An investment in our common stock involves various risks. All investors should carefully consider the following risk factors in conjunction with the other information contained in this Annual Report before trading in our securities. If any of these risks actually occur, our business, operating results, prospects

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and financial condition could be harmed.

RISKS ASSOCIATED WITH OUR REAL PROPERTY BUSINESS GENERALLY

Our real property business is subject to General Risks Associated With Ownership of Real Property for Investment

We are subject to all of the risks inherent in investing in real estate, which may include, without limitation, neighborhood property values, general and local economic and social conditions, financial resources of tenants, vacancies, rent strikes, changes in tax, zoning, building, environmental and other applicable laws, federal and local rent control laws, real property tax rates, changes in interest rates and the availability of mortgage funds which may render the sale of properties difficult or unattractive. Such risks also include fluctuations in occupancy rates, rent schedules and operating expenses which could adversely affect the value of our real property interests. There can be no assurance of profitable operations from the ownership and management of the Company's real property interests.

We have filed an application to develop a gated, age restricted community on the remaining Flowerfield property that includes 39 single-family homes, 60 townhouses and 210 condominiums. Living space would range from 1,600 square feet for the smallest condominiums to 2,800 square feet for detached single-family homes. Amenities would include a clubhouse with recreation facilities, pedestrian and bicycle paths, and extensive landscaping. Prices are currently expected to range from \$850,000 to \$1.45 million per home.

We have engaged the firm of Platt Byard Dovell White Architects for design work. The firm enjoys an outstanding reputation for designing attractive residential and commercial properties. Leading the project will be Sam White, FAIA, a partner at the firm who is known specifically for his proven ability to blend historic context into new architecture.

The application asks for the zoning of approximately 62.4 acres to be changed from "light industrial" (approx. 55.5 acres) and "residential" (approx. 6.9 acres) to "planned residential." Another 4.3 acres of the property owned by us, while already zoned as "residential," would remain undeveloped. Total amount of open space remaining after development is expected to exceed 40 acres. As indicated in the application, we plan in the future to remove the industrial buildings currently in use at the appropriate time.

According to an analysis obtained by us, the local road traffic caused by the residential development would be lower than the levels attributed to the current industrial operations. The development also would have a positive impact on the municipal tax base, while the age-restricted nature of the community would not affect the local school population. We estimate that 100 construction jobs and 15 permanent jobs would be created by the project.

Illiquidity of real estate investments could significantly impede our ability to sell assets or to respond to favorable or adverse changes in the performance of our properties.

Because real estate investments are relatively illiquid, our ability to sell promptly all or any portion of our Flowerfield property in response to changing economic, financial and investment conditions may be limited.

We may sell some of our properties from time to time in the future. However, we cannot predict whether we will be able to sell any property for the price or on the terms we set, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

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RISKS ASSOCIATED WITH OUR RENTAL PROPERTY OPERATIONS

Costs of operating our properties can rise faster than our ability to increase rental income.

Costs of operating our properties, such as real estate taxes, utilities, insurance, maintenance and other costs, can rise faster than our ability to increase rental income. While we do receive some additional rent from our tenants that is based on recovering a portion of operating expenses, generally increased operating expenses will negatively impact our net operating income from the properties. Our revenues and expense recoveries are subject to leases and may not be quickly increased sufficient to recover an increase in operating costs and expenses. As leases expire, we try either to relet the space to the existing tenant or attract a new tenant to occupy the space. In either case, we likely will incur significant costs in the process, including potentially substantial tenant improvement expense or lease incentives. In addition, if market rents have declined since the time the expiring lease was executed, the terms of any new lease

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signed likely will not be as favorable to us as the terms of the expiring lease, thereby reducing the rental revenue earned from that space.

The profitability of our rental operations could be materially impacted by the financial health of the regional economy generally.

All of our rental properties are located on Long Island in St. James, New York. The concentration of all our rental properties in one location exposes us to greater economic risks than if we owned properties in several geographic regions. We are susceptible to the potential for adverse developments in the Long Island economy (such as business layoffs or downsizing, industry slowdowns, relocations of businesses, changing demographics, increased telecommuting, infrastructure quality, New York state budgetary constraints and priorities, increases in real estate and other taxes, costs of complying with government regulations or increased regulation and other factors) and the national and New York regional commercial rental space market (such as oversupply of or reduced demand for commercial rental space). The State of New York in general, and Long Island in particular, is also generally regarded as more litigious and more highly regulated and taxed than many states, which may reduce demand for commercial rental space in New York. Long Island is also characterized by a recognized shortage of affordable workforce housing, which could adversely impact the location decisions of businesses. Any adverse economic or real estate developments on Long Island, or any decrease in demand for office space resulting from New York's regulatory environment or business climate, could adversely impact our financial condition, results of operations, cash flow, and the per share trading price of our common stock. We cannot assure you of the continued growth of the Long Island economy or our future growth rate.

We are subject to Federal, state and local laws and regulations that could impact our operations and profitability.

There are a number of government regulations, including zoning, tax and accessibility laws that apply to the ownership and operation of real estate properties. Compliance with existing and newly adopted regulations may require us to incur significant costs on our properties. Federal, state and local laws and regulations relating to the protection of the environment may require an owner or operator of real property to investigate and clean up hazardous or toxic substances or petroleum product releases at the property. The clean up can be costly. The presence of or failure to clean up contamination may adversely

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affect our ability to sell or lease a property or to borrow funds using a property as collateral.

The market for commercial rental space is highly competitive.

An oversupply of space in our geographic market would typically cause rental rates and occupancies to decline, making it more difficult for us to lease space at attractive rental rates. In order to maintain the quality of our rental properties and successfully compete against other rental properties, we periodically spend money to maintain, repair and renovate our rental properties. If our properties are not as attractive to tenants (in terms of rents, services, condition or location) as other properties that compete with it, we could lose tenants to those properties or receive lower rental rates.

RISKS ASSOCIATED WITH OUR INVESTMENT IN CALLERY-JUDGE GROVE, L.P.

We own a 10.93% limited partnership interest in Callery-Judge Grove, L.P., a New York limited partnership (the "Partnership"), which owns a 3,500+ acre citrus grove located in Palm Beach County, Florida. The property is the subject of a plan for a mixed use of residential, commercial, and industrial development which is under review by state and local municipal authorities. We face several risks inherent in ownership of a minority interest in a limited partnership.

We are limited in our ability to transfer our interest in the Partnership.

Interests in the Partnership are not freely transferable. They can only be assigned or transferred upon the terms and conditions set forth in the limited partnership agreement. Those restrictions may at times preclude a transfer of our interest. We may not transfer our interest without prior written notice to, and receiving consent, in writing and at the sole discretion, of the Partnership's managing partner. The transferee must also provide the Partnership's general partner with an opinion of counsel that the transfer will not violate any securities, tax or other laws or rules and will not affect the tax status or treatment of the Partnership. No public market for the Partnership's interests exists or is contemplated in the foreseeable future.

Since limited partners do not participate in management of the Partnership's business, we must rely on the Managing Partner to adequately manage the Partnership's affairs.

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We do not participate in the management or control of the Partnership or the conduct of its business. We have only limited voting rights with respect to the Partnership's affairs. We must rely upon the fiduciary responsibility and judgment of the managing partner of the Partnership to manage the Partnership's affairs in the best interests of the limited partners.

RISKS ASSOCIATED WITH OUR INVESTMENT IN AGENCY HYBRID MORTGAGE-BACKED SECURITIES

Changes in interest rates could negatively affect the value of our mortgage-backed securities, which could result in reduced earnings or losses and negatively affect the cash available for distribution to our shareholders under a REIT structure.

We invest in agency hybrid mortgage-backed securities and we currently intend to continue to include them in our investment strategy. Under a normal yield curve, an investment in mortgage-backed securities will decline in value if long-term interest rates increase. Despite Fannie Mae, Freddie Mac or Ginnie Mae guarantees of the mortgage-backed securities we own, those guarantees do not

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protect us from declines in market value caused by changes in interest rates. Declines in market value may ultimately reduce earnings or result in losses to us, which may negatively affect cash available for distribution to the shareholders under a REIT structure.

Market values of mortgage-backed securities may decline without any general increase in interest rates for a number of reasons, such as increases in defaults, increases in voluntary prepayments and widening of credit spreads.

Increased levels of prepayments from mortgage-backed securities may decrease our net interest income.

Pools of mortgage loans underlie the mortgage-backed securities that we acquire. We generally receive payments from principal payments that are made on these underlying mortgage loans. When borrowers prepay their mortgage loans faster than expected, this results in repayments of principal that are faster than expected on the mortgage-backed securities. Faster than expected prepayments could harm our profitability. Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayment rates also may be affected by conditions in the housing and financial markets, general economic conditions and the relative interest rates on fixed-rate and adjustable-rate mortgage loans.

While we seek to minimize prepayment risk to the extent practical, in selecting investments we must balance prepayment risk against other risks and the potential returns of each investment. No strategy can completely insulate us from prepayment risk.

RISKS RELATING TO OUR REAL ESTATE INVESTMENT TRUST (REIT) CONVERSION STRATEGY

If we fail to qualify as a REIT or fail to remain qualified as a REIT, we will have reduced funds available for distribution to our shareholders and our income will be subject to taxation at regular corporate rates.

We may be unsuccessful in our efforts to qualify as a REIT.

Our Board of Directors has authorized us to take the steps necessary to elect to be taxed as a REIT. Currently, we plan on electing REIT status in 2007, effective as of May 1, 2006. There can be no assurance that we will be organized in conformity with the requirements for qualification as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, or that our proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT. Given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given that we will so qualify for any particular year. We do not intend to request a ruling from the Internal Revenue Service as to our qualification as a REIT.

Furthermore, our qualification as a REIT will depend on its satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis. Our ability to satisfy the asset tests will depend upon our analysis of the fair market values of our assets, some of which are not susceptible to a precise determination. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to manage successfully the composition of our income and assets on an ongoing basis.

Our management team has never operated a REIT, which may result in additional

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administrative costs.

Although our management team has significant experience relating to the ownership and management of real property, no member of its management team has prior experience managing or operating a REIT. The federal and state income tax laws impose numerous constraints on the operations of REITs. Our management team's lack of experience in managing a portfolio of assets under such constraints may hinder our ability to manage Gyrodyne as a REIT successfully without the engagement of additional expertise. In addition, maintaining the REIT qualification will limit the types of investments or business expansions we will be able to make.

Legislative or other actions affecting REITs could have a negative effect on our business and our stock price.

The rules dealing with federal and state income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. Changes to the tax laws affecting REITs, which may have retroactive application, could adversely affect Gyrodyne or our investors. We cannot predict how changes in the tax laws might affect Gyrodyne or our investors. Accordingly, we cannot assure you that new legislation, Treasury regulations, administrative interpretations or court decisions will not significantly affect our ability to qualify as a REIT or the federal and state income tax consequences of such qualification.

Future acquisitions of properties may fail to perform in accordance with our expectations and may require development and renovation costs exceeding its estimates.

On March 27, 2006, we received payment from the State of New York in the amount of \$26,315,000, which we had previously elected to accept as an advance payment for property condemned by the State University of New York. See Note 20 to the consolidated financial statements. We plan to invest these proceeds in securities and other assets, including real estate, consistent with our objective of qualifying as a REIT under the Internal Revenue Code of 1986. Changing market conditions may diminish our opportunities for making attractive investments. Once made, our investments may fail to perform in accordance with its expectations.

RISKS ASSOCIATED WITH ANTI-TAKEOVER PROVISIONS

Because of provisions contained in New York law, the Company's charter and shareholder rights plan may have an anti-takeover effect, investors may be prevented from receiving a "control premium" for their shares.

Provisions contained in the Company's charter and shareholder rights plan as well as under New York Business Corporation Law may have anti-takeover effects that delay, defer or prevent a takeover attempt, and thereby prevent shareholders from receiving a "control premium" for their shares. For example, these provisions may defer or prevent tender offers for our Common Stock or purchases of large blocks of its Common Stock, thus limiting the opportunities for our shareholders to receive a premium for their Common Stock over then-prevailing market prices. These provisions include the following:

- o Staggered board. Our Board of Directors is divided into three classes. As a result, each director generally serves for a three-year term. This staggering of the Board may discourage offers for Gyrodyne or make an acquisition of Gyrodyne more difficult, even when an acquisition is in the best interest of its shareholders.
- o New York anti-takeover statute. Under New York's anti-takeover statute, any person who acquires 20% or more of our common stock is

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prohibited from engaging in a business combination with us for five years unless the Board has approved (i) the particular business combination or (ii) the stock purchase that put the shareholder over the 20% threshold.

- o Dilutive effect of shareholder rights plan. We have in effect a shareholder rights plan, which is currently scheduled to expire on August 11, 2014, and is designed to deter a hostile takeover by increasing the takeover cost. As a result, the plan could discourage offers for Gyrodyne or make an acquisition of Gyrodyne more difficult, even when an acquisition is in the best interest of our shareholders. The rights plan should not interfere with any merger or other business combination the Board of Directors approves since we may generally terminate the plan at any time at nominal cost.

Item 1B Unresolved Staff Comments

None

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Item 2 Properties

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

Real Estate Investments

The Company owns a 68 acre tract of land located on the north shore of Suffolk County, Long Island, New York. The Company currently has approximately 127,392 square feet of rental space and has 46 tenants.

The land is carried on the Company's balance sheet at cost in the amount of \$561,483 while the buildings and improvements are carried at a depreciated cost of \$735,305. The Company has a secured revolving line of credit in the amount of \$1,750,000. The outstanding balance was zero as of December 31, 2006 and April 30, 2006. Collateral for the credit line consists of Building #7 and the surrounding 6 1/2 acres.

The average age of all the buildings is approximately 47 years and the facilities continually undergo maintenance repair cycles for roofs, paved areas, and building exteriors. The general condition of internal infrastructure, HVAC, electrical, and plumbing is considered above average for facilities of this age. The grounds feature extensive landscaping, are neatly groomed and well maintained.

There are four main buildings with rental unit sizes ranging from 105 to 12,980 square feet. Given the location and size of rental units, the Flowerfield Industrial Park attracts many smaller companies that are not dependent on extensive material or product handling.

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

The following table sets forth certain information as of December 31, 2006 for the total Company property:

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Property	Rentable Square Feet	Percent Leased	Annual Base Rent	Annual Base Rent Per Leased SQ. FT.	Number Of Tenants	Number Of Tenants Who Occupy 10% Or More Of Rentable Sq. Ft.
St. James, N.Y.	127,392	71%	\$1,280,026	\$14.17	46	1

The Company has one tenant with over 10% of the rentable square footage. The principal nature of this tenant's business is providing day care for pre-school children. The principal provisions of its lease include the rental of 12,980 square feet of space with an annual base rent of \$183,277, expiring March 31, 2020. See, Item 3 Legal Proceedings.

The following table sets forth the Company's lease expiration table as of December 31, 2006:

Fiscal Year End	Number of Leases Expiring	Square Feet Expiring	Total Annual Rent	% of Gross Annual Rental Represented By Such Leases
2007	38	53,619	\$712,129	55.63%
2008	8	14,896	\$276,617	21.61%
2010	2	8,864	\$108,003	8.44%
2020	1	12,980	\$183,277	14.32%

The Company's property is primarily zoned for light industrial use and is located in the hamlet of St. James, New York.

Item 3 Legal Proceedings

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

On November 2, 2005, the State University of New York at Stony Brook (the "University") filed an acquisition map with the Suffolk County Clerk's office and vested title in approximately 245.5 acres of the Company's property known as Flowerfield (the "Property") pursuant to the New York Eminent Domain Procedure Law (the "EDPL"). On March 27, 2006, the Company received payment from the State of New York in the amount of \$26,315,000, which the Company had previously elected under the EDPL to accept as an advance payment for the Property. Under the EDPL, both the advance payment and any additional award from the Court of Claims bear interest at the current statutory rate of 9% simple interest from the date of the taking through the date of payment.

On May 1, 2006, the Company filed a Notice of Claim with the Court of Claims of the State of New York seeking \$158 million in damages from the University resulting from the condemnation of the Property. While the Company believes that a credible case for substantial additional compensation can be made, it is possible that the Company may be awarded a different amount than is being requested, including no compensation, or an amount that is substantially lower than the Company's claim for \$158 million. It is also possible that the Court of Claims could ultimately permit the State to recoup part of its advance payment to the Company.

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Faith Enterprises D.C. LLC v. Gyrodyne Company of America, Inc.

Faith Enterprises, an operator of a child care center as a franchisee of Kiddie Academy, leases a suite of offices from the Company under a 15-year lease which commenced in March 2005 with a five-year option. Beginning approximately July 2005 and continuing to the present, Faith Enterprises failed to pay the full monthly rent due under the lease and remain current with their obligations. The Company served Faith Enterprises with a series of default notices. The franchisor was also notified of the default but has not chosen to terminate the franchise agreement nor pay the rent deficiency on behalf of the franchisee. In February 2007, the Company served Faith Enterprises with a 10-day notice of default. Faith Enterprises then commenced this action in New York State Supreme Court for Suffolk County seeking damages for breach of contract, fraudulent inducement and tortuous interference with business, claiming that the Company's issuance of press releases in December 2006 and January 2007 about its submission of an application to the Town of Smithtown to rezone its property caused Faith Enterprises financial damages in lost clientele. Faith Enterprises is seeking \$7 million in damages on each of the three claims and is requesting that it not pay rent during the pendency of the proceeding. Faith Enterprises also filed an application for a Yellowstone injunction and a preliminary injunction to forestall the Company from proceeding with the non-payment eviction proceeding. The Company opposed that application and, in an order dated February 21, 2007, the Court denied Faith Enterprises' request in its entirety. The Company also served and filed a motion to dismiss the entire case. That motion is currently returnable on March 28, 2007. The Company also commenced a proceeding in district court seeking to evict Faith Enterprises for non-payment of rent. That proceeding was commenced in March 2007, upon the Supreme Court's decision denying Faith Enterprises' request for injunctive relief.

In addition, in the normal course of business, the Company is a party to various legal proceedings. After reviewing all actions and proceedings pending against or involving the Company, Management considers the aggregate loss, if any, will not be material.

Item 4 Submission of Matters to a Vote of Security Holders

The Company's annual shareholder meeting for Fiscal Year Ended April 30, 2006 was held on December 7, 2006 (the "2006 Annual Meeting"). On each matter submitted to shareholders, the votes were as follows:

To elect three directors to serve for a term of three years or until their successors shall be elected and shall qualify:

	For ---	Withheld -----
Paul L. Lamb	500,431	20,772
Nader G.M. Salour	502,890	18,313
Richard B. Smith	494,010	27,193

The directors whose term of office as a director continued after the 2006 Annual Meeting are as follows: Robert H. Beyer, Elliot H. Levine, Ronald J. Macklin, Stephen V. Maroney and Philip F. Palmedo.

To ratify the engagement of Holtz Rubenstein Reminick, LLP as independent certified public accountants and auditors for the current fiscal year; votes for 962,925, votes against 19,121, votes abstain 1,614.

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PART II

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

(a) Market information

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

Quarter Ended	Low	High

Fiscal 2005		

July 31, 2004	\$27.00	\$35.15

October 31, 2004	\$30.00	\$36.90

January 31, 2005	\$34.00	\$39.75

April 30, 2005	\$34.00	\$44.00

Quarter Ended	Low	High

Fiscal 2006		

July 31, 2005	\$38.80	\$45.00

October 31, 2005	\$43.01	\$47.95

January 31, 2006	\$41.75	\$45.52

April 30, 2006	\$42.00	\$50.00

Eight Months Ended	Low	High
December 31, 2006	-----	
July 31, 2006	\$46.00	\$56.99

October 31, 2006	\$44.57	\$49.48

December 31, 2006	\$43.42	\$62.00

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

Title of Class	Number of Holders of Record as of February 8, 2007

Common Stock, \$1.00 Par Value	766

(c) There were no cash dividends declared on the Company's Common Stock during

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the eight months ended December 31, 2006 and fiscal years ended April 30, 2006 and April 30, 2005. On December 9, 2005, the Board of Directors of the Company announced a plan to convert the Company to a real estate investment trust or REIT. The advantage of operating as a REIT is that REITs generally will not be subject to New York State and U.S. federal corporate income taxes on income and gain from investments in real estate that it distributes to its shareholders, thereby reducing its corporate-level taxes and substantially eliminating the double taxation on income and gain that usually results in the case of a distribution by a C corporation. If the Company successfully remains as a REIT, it expects to pay dividends on most of its net income and gain from investments in real estate.

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(d) Equity Compensation Plan Information.

The following table gives information about the Company's shares of Common Stock that may be issued under its equity compensation plans.

	(a)	(b)	
	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Num remai futu equ p secu
Equity compensation plans approved by security holders	67,105	\$16.42	
Equity compensation plans not approved by security holders	0	0	
<hr style="border-top: 1px dashed black;"/>			
Total	67,105	\$16.42	

There were no options granted in the eight months ended December 31, 2006.

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Item 6 Selected Financial Data

The following selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operation" appearing elsewhere in this Annual Report on Form 10-K.

Eight Months Ended	
December 31,	

2006	2005

(Unaudited)	

Statement of Operations Data:

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Revenues		
Rental income	\$ 893,311	\$ 1,205,991
Interest Income	932,451	421,569
	-----	-----
	1,825,762	1,627,560
	-----	-----
Expenses		
Rental expenses	469,037	389,601
General and administrative expenses	1,671,833	1,330,388
Depreciation	34,027	47,822
	-----	-----
	2,174,897	1,767,811
	-----	-----
(Loss) from operations before gains on sales of equipment and real estate investments and cumulative effects of accounting changes	(349,135)	(140,251)
(Loss) gain on condemnation of rental property	(1,500,000)	20,710,339
Gain on sale of real estate	-	1,136,705
	-----	-----
(Loss) Income Before Income Taxes	(1,849,135)	21,706,793
(Benefit) Provision for Income Taxes	(1,417,000)	8,682,717
	-----	-----
Net (Loss) Income	\$ (432,135)	\$ 13,024,076
	=====	=====
Net (Loss) Income Per Common Share:		
Basic	\$ (.35)	\$ 10.62
	=====	=====
Diluted	\$ (.35)	\$ 10.25
	=====	=====
Weighted Average Shares Outstanding:		
Basic	1,237,219	1,225,868
	=====	=====
Diluted	1,237,219	1,270,889
	=====	=====
Balance Sheet Data:		
Total assets	\$ 30,947,715	\$ 30,779,278
Long-term liabilities	\$ 8,135,000	\$ 9,889,135
Cash dividends declared	\$ 0	\$ 0
Funds from operations	\$ (326,697)	N/A

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For Fiscal Years Ended April

2006 2005 2004

Statement of Operations Data:
Revenues

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Rental income	\$ 1,626,651	\$ 2,039,170	\$ 2,086,687	\$
Interest Income	1,084,106	102,852	111,721	
	-----	-----	-----	
	2,710,757	2,142,022	2,198,408	
	-----	-----	-----	
Expenses				
Rental expenses	655,161	948,396	710,734	
General and administrative expenses	2,373,223	1,764,183	1,574,353	
Depreciation	62,196	72,835	78,176	
Interest expense	-	35,217	38,850	
	-----	-----	-----	
	3,090,580	2,820,631	2,402,113	
	-----	-----	-----	
(Loss) income from operations before gains on sales of equipment and real estate investments and cumulative effects of accounting changes	(379,823)	(678,609)	(203,705)	
Gain on sale of equipment	-	12,000	-	
Lease termination (expense), net	-	-	-	
Gain on condemnation of rental property	20,710,339	-	-	
Gain on sale of real estate	1,136,705	437,195	-	
	-----	-----	-----	
Income (Loss) Before Income Taxes	21,467,221	(229,414)	(203,705)	
Provision (Benefit) for Income Taxes	8,351,904	(91,766)	(90,239)	
	-----	-----	-----	
Net Income (Loss)	\$ 13,115,317	\$ (137,648)	\$ (113,466)	\$
	=====	=====	=====	
Net Income (Loss) Per Common Share:				
Basic	\$ 10.67	\$ (0.12)	\$ (0.10)	\$
	=====	=====	=====	
Diluted	\$ 10.29	\$ (0.12)	\$ (0.10)	\$
	=====	=====	=====	
Weighted Average Shares Outstanding:				
Basic	1,229,582	1,180,469	1,133,896	
	=====	=====	=====	
Diluted	1,274,034	1,180,469	1,133,896	
	=====	=====	=====	
Balance Sheet Data:				
Total assets	\$ 30,580,359	\$ 9,523,349	\$ 10,271,370	\$
Long-term liabilities	\$ 9,358,000	\$ 2,753,439	\$ 4,008,332	\$
Cash dividends declared	\$ 0	\$ 0	\$ 0	\$
Funds from operations (1) (2)	N/A	N/A	N/A	

The Company has not presented Funds from Operations for periods prior to December 31, 2006, as the Company was not operating as a REIT in prior periods.

Certain reclassifications have been made to the consolidated financial statements for fiscal years April 30, 2006, 2005, 2004, 2003, and 2002 to conform to the classification used in the current fiscal year.

(1) In order to maintain its qualification as a REIT, the Company must make annual distributions to shareholders of at least 90% of its REIT taxable income. Under certain circumstances, the Company may be required to make distributions

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in excess of cash available for distribution in order to meet the REIT distribution requirements. Distributions are determined by the Company's Board of Directors and are dependent on a number of factors, including the amount of funds available for distribution, the Company's financial condition,

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any decision by the Board of Directors to reinvest funds rather than to distribute the funds, the Company's capital expenditures, the annual distribution required to maintain REIT status under the Code and other factors the Board of Directors may deem relevant.

(2) One of our primary objectives is to provide cash distributions to our shareholders from cash generated by our operations. We consider Funds from Operations, or FFO, to be an appropriate supplemental measure of a REIT's operating performance, as it is based on a net income analysis of property portfolio performance that excludes non-cash items such as depreciation. We computed FFO in accordance with the White Paper on FFO approved by the Board of Governors of the National Association of Real Estate Investment Trusts, or NAREIT, as revised in February 2004. The White Paper defines FFO as net income or loss computed in accordance with GAAP, excluding extraordinary items, as defined by GAAP, and gains and losses from sales of depreciable operating property, plus real estate related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets), and after adjustment for unconsolidated partnerships and joint ventures. Other REITs may use different methodologies for calculating FFO, and accordingly, our FFO may not be comparable to other REITs.

Because FFO excludes depreciation and amortization, gains and losses from property dispositions, and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses and interest costs, providing a perspective not immediately apparent from net income. In 2007, effective May 1, 2006, the Company intends to elect to be taxed as a real estate investment trust for federal and state income tax purposes. As a REIT, the Company is generally not subject to income taxes. As a result, the Company has reversed \$1,417,000 of deferred taxes for differences between financial reporting and tax bases of assets and liabilities. These deferred taxes represent book to tax differences for stock compensation, accrued sick and vacation pay, bad debt expense and prepaid pension costs. See Note 7. This \$1,417,000 tax benefit is an unusual item and is non-recurring. In addition, we believe FFO provides useful information to the investment community about our financial performance when compared to other REITs since FFO is generally recognized as the industry standard for reporting the operations of REITs. However, FFO should not be viewed as an alternative measure of our operating performance since it does not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, which are significant economic costs and could materially impact our results of operations.

The Company defines FFO, a non-GAAP measure, consistent with the NAREIT's definition, as net income available to common shareholders, plus depreciation and amortization of assets uniquely significant to the real estate industry, reduced by gains and increased by losses on (i) sales of investment property and (ii) extraordinary items.

The Company considers FFO to be an appropriate supplemental measure of a REIT's operating performance as it is based on a net income analysis of property portfolio performance that excludes non-cash items such as depreciation. The

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historical accounting convention used for real estate assets requires straight-line depreciation of buildings and improvements, which implies that the value of real estate assets diminishes predictably over time. Since real estate values historically rise and fall with market conditions, presentations of operating results for a REIT, using historical accounting for depreciation, could be less informative. The use of FFO is recommended by the REIT industry as a supplemental performance measure.

Presentation of this information is intended to assist the reader in comparing the operating performance of different REITs, although it should be noted that not all REITs calculate FFO the same way, so comparisons with other REITs may not be meaningful. Furthermore, FFO is not necessarily indicative of cash flow available to fund cash needs and should not be considered as an alternative to net income as an indication of the Company's performance.

FFO is calculated as follows:

Eight Months Ended December 31, 2006

Net (Loss)	\$ (432,135)
(Benefit) for income taxes	(1,417,000)
Depreciation	22,438
Loss on condemnation of rental property	1,500,000

Funds from operations	\$ (326,697)
	=====

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

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

The statements made in this Form 10-K that are not historical facts contain "forward-looking information" within the meaning of the Private Securities Litigation Reform Act of 1995, and Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended, which can be identified by the use of forward-looking terminology such as "may," "will," "anticipates," "expects," "projects," "estimates," "believes," "seeks," "could," "should," or "continue," the negative thereof, other variations or comparable terminology. Important factors, including certain risks and uncertainties, with respect to such forward-looking statements that could cause actual results to differ materially from those reflected in such forward-looking statements include, but are not limited to, the effect of economic and business conditions, including risks inherent in the Long Island, New York and Palm Beach County, Florida real estate markets, the ability to obtain additional capital in order to develop the existing real estate and other risks detailed from time to time in the Company's SEC reports. The Company assumes no obligation to update the information in this Form 10-K.

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 accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the

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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

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

Real Estate

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

Depreciation is computed utilizing the straight-line method over the estimated useful lives 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 lives 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.

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

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

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

Stock-Based Compensation

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 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.

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

Qualification as a REIT

The Company has been organized and operated, and intends to continue to operate, so as to qualify for taxation as a REIT under the Code. The Company's qualification and taxation as a REIT depends on its ability to meet, through actual annual operating results, asset diversification, distribution levels and diversity of stock ownership, numerous requirements established under highly technical and complex Code provisions subject to interpretation.

If the Company failed to qualify as a REIT in any taxable year, it would be subject to federal and state income tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates. Moreover, unless entitled to relief under specific statutory provisions, the Company also would be disqualified as a REIT for four taxable years following the year during which qualification was lost.

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RESULTS OF OPERATIONS FOR THE EIGHT MONTHS ENDED DECEMBER 31, 2006 AS COMPARED TO THE EIGHT MONTHS ENDED DECEMBER 31, 2005

The Company is reporting a loss of \$432,135 for the eight month period ended December 31, 2006 compared to net income totaling \$13,024,076 for the eight months ended December 31, 2005. The diluted per share loss for the current period amounted to \$0.35 compared to earnings of \$10.25 per share for the same period during the prior year.

The major contributing factor to this significant variance was the November 2005 condemnation by the State University of New York at Stony Brook of 245.5 acres of the Flowerfield property located in Stony Brook/Saint James, New York for which the Company received \$26,315,000 in the form of an Advance Payment in March 2006; this action resulted in a gain of \$20,710,339. In addition, the prior year period also included the receipt of the final payment on a \$1.8 million mortgage resulting from the sale of real estate which matured in August 2005; the gain on that transaction amounted to \$1,136,705. Subsequent to December 31, 2006, in February 2007, the Company entered into an agreement with Landmark National to terminate two contracts associated with an earlier development plan to design and construct a residential golf course community on the Flowerfield property that was ultimately condemned. The Company agreed to pay Landmark National \$2,000,000, \$500,000 of which had previously been accrued, in recognition of services rendered and to terminate the two contracts. The termination agreement also releases the Company from a claim Landmark had asserted that it was entitled to 10% of all condemnation proceeds and any future sale or development of the remaining Flowerfield acreage. As a result, \$1,500,000 was expensed in the current reporting period and will be added to the Company's claim for additional compensation for the condemned property in its pending litigation against the State of New York.

Total revenues increased by \$198,202 for the eight month period ended December 31, 2006, totaling \$1,825,762 compared to \$1,627,560 for the same period last year. Rental income declined by \$312,680 for the reporting period, totaling \$893,311 compared to \$1,205,991 for the same period last year. Of that total

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decrease, \$280,954, or 90% of the variance, was directly attributable to the condemnation and the rental income associated with the property included in the eminent domain taking. The \$31,726 balance of the decline in revenue is the net result of terminated leases and new tenancies. Of the terminated leases, the largest single impact amounted to \$33,439 for the current reporting period.

Interest income increased by \$510,882, totaling \$932,451 and \$421,569 for the current reporting period and for the eight months ended December 31, 2005, respectively. This increase is attributable to the investment of the \$26.3 million Advance Payment received in connection with the condemned property in March 2006. In that regard, interest income includes \$658,281 relating to the Company's investment in mortgage backed securities issued by U.S. Government Agencies which are qualified real estate investment trust (REIT) investments. For a company to qualify as a REIT, 75% of its total revenue must be in REIT qualified income. In keeping with Gyrodyne's announced plan to convert to a REIT, qualified REIT income accounted for 85% of total revenues for the eight months ended December 31, 2006.

Rental expenses increased by \$79,436, amounting to \$469,037 and \$389,601 for the eight months ended December 31, 2006 and 2005, respectively. Contributing factors included increased costs associated with general maintenance issues totaling \$38,459, increased insurance premiums of \$30,660, and real estate taxes of \$24,551. In the case of the real estate taxes, a portion of the increase was due to annual incremental adjustments while the balance was due to the fact that, in prior periods, taxes associated with undeveloped property included in the development plan, were capitalized. Partially offsetting these increased expenses, the Company experienced lower fuel costs totaling \$6,962, and a reduction in outside services amounting to \$10,424.

General and administrative expenses consist primarily of third party professional and consulting fees, corporate governance expenses, and salaries and benefits for the executive and administrative staff. General and administrative expenses increased by \$341,445 for the eight months ended December 31, 2006 and totaled \$1,671,833 compared to \$1,330,388 for the same period during the prior year. There were several factors and events that contributed to this increase. Costs associated with the Company's annual meeting exceeded the prior year by \$170,780 and were directly attributable to an announced attempt by a dissident shareholder group to wage a proxy contest in an effort to gain three seats on the Company's Board of Directors. Legal and consulting fees associated with the Landmark agreement amounted to \$73,040 and costs related to the Company's conversion to a REIT accounted for \$30,115. Expenses incurred during the current reporting period associated with the pursuit of additional compensation for the condemned Flowerfield property totaled \$117,415 and represented an increase of \$75,499. Other increases include \$38,148 in accounting fees, \$65,569 for the conversion of the Company's internal accounting system, \$21,210 in salaries and benefits, and \$12,706 in Directors fees. Partially offsetting the foregoing increases, the Company experienced a reduction of \$24,329 in pension plan expenses, and a savings of \$36,870 associated with canceling a rental agreement for office space utilized during the prior year. Additionally, prior year results included \$82,007 in expenses relating to the development of the Company's strategic plan for conversion to a REIT.

Depreciation expenses amounted to \$34,027 and \$47,822 for the eight months ended December 31, 2006 and 2005, respectively. The decrease of \$13,795 is attributable to the fact that the condemnation included improved properties.

As a result, the Company is reporting a loss from operations totaling \$349,135

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compared to a loss of \$140,251 for the eight months ended December 31, 2006 and 2005, respectively.

As previously mentioned, during the prior year, the Company received an Advance Payment in connection with the condemnation of 245.5 acres of its Flowerfield property in Stony Brook/Saint James, N.Y. As a result, a gain of \$20,710,339 was recognized along with an additional gain on the sale of real estate amounting to \$1,136,705 relating to a \$1.8 million mortgage due and payable in August, 2005. These non-recurring events account for the dramatic variance to the current period which includes the \$1,500,000 charge for terminating the two Landmark National contracts also mentioned earlier in this report.

As a result, the Company is reporting a loss before income taxes totaling \$1,849,135 for the eight months ended December 31, 2006 compared to income before income taxes of \$21,706,793 for the eight months ended December 31, 2005.

In 2007, effective May 1, 2006, the Company intends to elect to be taxed as a real estate investment trust for federal and state income tax purposes. As a REIT, the Company is generally not subject to income taxes. As a result, the Company has reversed \$1,417,000 of deferred taxes for differences between financial reporting and tax bases of assets and liabilities. At December 31, 2006, there remains \$8,135,000 of deferred income taxes for unrealized gain on investment in Callery-Judge Grove, an asset of a taxable REIT subsidiary, and the deferred gain, for income tax purposes, on condemnation of 245.5 acres of the Company's Flowerfield property.

RESULTS OF OPERATIONS FOR THE YEAR ENDED APRIL 30, 2006 AS COMPARED TO THE YEAR ENDED APRIL 30, 2005

The Company reported net income of \$13,115,317 for the year ended April 30, 2006 compared to a net loss of \$137,648 for the prior year. Diluted per share earnings amounted to \$10.29 for fiscal 2006 and a per share loss of \$0.12 for fiscal 2005.

The results for 2006 include two nonrecurring events which served to bolster the Company's earnings. The recognition of the deferred gain resulting from receipt of a final payment on a \$1.8 million mortgage which was due and payable in August 2005 and held in connection with the 2002 sale of certain land and buildings on the Flowerfield property. The second event impacting fiscal 2006 results was the condemnation of 245.5 acres at Flowerfield by the State University of New York at Stony Brook. This taking of our property, which was executed under the authority of New York's Eminent Domain Procedural Law ("EDPL"), occurred in November 2005 and resulted in a payment of \$26,315,000 received by the Company in March 2006, which the Company had elected to treat as an Advance Payment for the property under the EDPL. A gain of \$20,710,339 was recognized as a result of the receipt of the Advance Payment. More detailed disclosure is included further on in this report.

Rental income declined significantly, amounting to \$1,626,651 for 2006. This represents a decrease of \$412,519 or 20% from the prior year when revenues amounted to \$2,039,170. The major contributing factor to this loss of revenue was the aforementioned condemnation which included one of the larger buildings at Flowerfield, occupied by two major tenants. The total impact of the eminent domain taking resulted in a decrease of \$291,088 in rental income and accounts for 71% of the decline. The balance of the decline in rental revenues, \$121,431, is the net result of a number of terminated leases and new tenancies at Flowerfield. The largest termination accounted for \$93,347 of the variance.

Interest income totaled \$1,084,106 for the current period representing a \$981,254 increase over the prior year when interest income totaled \$102,852. The major factor to this increase was the accrual of \$921,385 in interest due on the condemnation Advance Payment from the State of New York. Of that total, \$589,008

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was received and the accrued receivable was reduced to \$332,377. In addition to the aforementioned, the Company generated \$111,877 from the investment of the Advance Payment proceeds and \$50,844 from interest bearing deposits; the latter compares to \$102,852 during the prior year.

As a result, revenues amounted to \$2,710,757 and \$2,142,022 for the years ended April 30, 2006 and 2005, respectively.

Rental expenses, including related depreciation and interest expense, reflect a 32% decrease of \$339,091 for the year, amounting to \$717,357 compared to \$1,056,448 for the prior year. While this reduction in expenses helped in offsetting a major portion of the lost revenue stream, several of the contributing factors are non-recurring in nature. Salaries and benefits decreased by \$105,965 as a result of our continuing efforts to shrink staffing levels. However, \$26,830 of the decrease is attributable to a severance payment during the prior year and will not be replicated going forward. Fees for outside services relating to storm drain improvements amounted to \$57,719 during the prior year and property and casualty insurance premiums were reduced by \$38,381. Property and casualty insurance reimbursements of \$61,338, which pertained to a prior period, were received from tenants pursuant to lease terms during this fiscal year. In addition to these non-recurring items, maintenance and repair expenses declined by \$28,409, plant security services decreased by \$33,820, and reflecting a milder winter climate, fuel oil expenses decreased by \$21,517. Interest expense was also reduced by \$35,217 as a direct result of the total pay down of borrowings on the Company's revolving credit line. The only significant

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increase in expenses also resulted from the condemnation. As a result of our having filed development plans for Flowerfield in 2002, real estate taxes on the undeveloped acreage were capitalized. That accounting treatment is no longer applicable and the taxes on the balance of Gyrodyne's undeveloped property, from the date of the condemnation forward, increased over the prior year by \$52,908. Rental expenses as a percentage of revenues amounted to 44% and 52% for 2006 and 2005, respectively, and we anticipate this ratio will approximate 51% for 2007.

General and administrative expenses increased during the current reporting period, amounting to \$2,373,223. This represents an increase of \$609,040 or 35% over the 2005 total of \$1,764,183. Specifically, expenses associated with the condemnation accounted for \$235,108, legal and consulting fees increased by \$228,351, and costs attributable to developing the Company's strategic plan totaled \$150,242. Contributing factors to the increase in legal and consulting fees included \$82,864 in costs associated with the Company's decision to pursue conversion to a Real Estate Investment Trust (REIT), \$34,305 in fees to our investment bankers, \$64,987 in legal research on behalf of Board committees, \$35,268 in costs associated with the remaining Flowerfield acreage, and \$14,198 in connection with the Company's limited partnership investment in the Callery-Judge Grove. In addition, salaries and benefits increased by \$48,169 and Directors fees, which reflect both an expanded number of Board members and an increase in the frequency of meetings, increased by \$32,412. The Company also experienced an increase in insurance premiums of \$34,840. Bad debt and pension expense decreased by \$33,000 and \$110,080, respectively.

Depreciation expense amounted to \$62,196 for the fiscal year ended April 30, 2006 compared to \$72,835 during 2005.

As a result, the Company reported losses from operations totaling \$379,823 and \$678,609 for the twelve months ended April 30, 2006 and 2005, respectively.

As previously mentioned, the Company received the proceeds of the Advance

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Payment which accounted for a gain of \$20,710,339 as well as the balance on a \$1.8 million mortgage, representing a gain of \$1,136,705. The gain attributable to that mortgage amounted to \$437,195 during the prior year.

As a result, the Company reported income before income taxes of \$21,467,221 for the twelve months ended April 30, 2006 compared to a loss before income taxes of \$229,414 for the prior fiscal year.

RESULTS OF OPERATIONS FOR THE YEAR ENDED APRIL 30, 2005 AS COMPARED TO THE YEAR ENDED APRIL 30, 2004

The Company reported a net loss of \$137,648 for the year ended April 30, 2005 compared to a net loss of \$113,466 for the prior year. Diluted per share losses amounted to (\$0.12) and (\$ 0.10) for fiscal 2005 and 2004, respectively. Rental income amounted to \$2,039,170, a 2% decline of \$47,517 to the \$2,086,687 posted during the prior year. Both periods were impacted by renegotiated terms with two major tenants. Those adjustments, which reduced the 2005 results by \$125,684, were partially mitigated by new tenant leases and annual incremental adjustments totaling \$78,167. Interest income totaled \$102,852 for the twelve months ended April 30, 2005 compared to \$111,721 during the prior fiscal year.

As a result, revenues amounted to \$2,142,022 and \$2,198,408 for the years ended April 30, 2005 and 2004, respectively.

Rental expenses, including related depreciation and interest expense, increased by \$228,688 or 28%, amounting to \$1,056,448 in fiscal 2005. The prior year expenses amounted to \$827,760. Of that total increase, \$225,799 is attributable to operating and maintenance costs. Salaries and benefits, including nonrecurring expenses of \$26,830 associated with an early retirement package, increased by \$52,037. Real estate taxes and the cost of fuel oil increased by \$11,863 and \$22,910, respectively. In addition, the Company experienced a \$93,030 increase in property and casualty insurance premiums and a \$59,585 expense associated with remedial treatment of our septic and storm drainage systems. A number of other operating expenses, including utilities, building, grounds, and equipment maintenance, reflected decreases totaling \$11,567; the largest contributing factor was a decrease in utility expense of \$7,628 for the year.

General and administrative expenses reflect an increase of 12% for the current reporting period, amounting to \$1,764,183 compared to \$1,574,353 for the prior year; an increase of \$189,830. Corporate governance expenses, which totaled \$330,374 for the year, increased by \$208,833 for the reporting period. A major portion of this increase is attributable to the establishment of a Shareholders Rights Plan which accounted for \$130,345. Other issues relating to shareholder filings and SEC requirements for publicly traded companies accounted for \$34,666 and \$43,822 of the increase, respectively. Other increases included Directors fees and bad debt expense which increased by \$9,794 and \$9,000, respectively. Finally, as activities surrounding the Company's investment in the Florida grove property increased, so too did our need to incur additional travel expense and make regular visits to the area. In an effort to keep abreast of developments in the industry, management also attended several corporate governance and real estate related seminars. The

cost of all of these activities accounted for \$21,927 of the increased expenses. Offsetting a portion of the increase in general and administrative expenses was an overall decrease in salaries and benefits and costs associated with the Company's pension plan. Salaries and benefits decreased by \$46,620, reflecting the fact that there was no stock option expense in the current period; in fiscal

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2004, that expense amounted to \$76,606. The Company's pension expense, which amounted to \$226,109 in fiscal 2005, decreased by \$10,761 when compared to the prior year. We anticipate that the cost associated with the plan will be reduced by an additional \$100,000 for the fiscal 2006 period.

Depreciation expense amounted to \$72,835 for the fiscal year ended April 30, 2005 compared to \$78,176 during 2004.

As a result, the Company reported losses from operations totaling \$678,609 and \$203,705 for the twelve months ended April 30, 2005 and 2004, respectively.

During fiscal year 2005, the Company received prepayments on a \$1.8 million mortgage held in connection with a prior year sale of certain properties at Flowerfield. Those payments resulted in a gain of \$437,195 being recognized. Additionally, the Company recorded a gain on the sale of equipment totaling \$12,000. There were no such transactions in the prior year.

As a result, the Company reported losses before income taxes of \$229,414 and \$203,705 for the twelve months ended April 30, 2005 and 2004, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$275,080 for the eight months ended December 31, 2006. This activity for the eight month period was primarily a result of proceeds from condemnation interest paid by the State of New York of \$589,008 in May, 2006. This was partially offset by capitalized land development costs of \$312,807. The net cash provided by operating activities for fiscal year end April 30, 2006 was \$24,032,174. This activity during the fiscal year was primarily related to the receipt of condemnation proceeds of \$25,718,925, net of proceeds from the condemnation of the rental property of \$596,075. Net cash used in operating activities was \$1,130,127 and \$1,067,419 in fiscal 2005 and 2004, respectively. The principal use of cash in both periods was funds used in connection with planning and pre-construction costs associated with land development plans for the residential 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 condemnation of the Company's property by the University.

Net cash (used in) investing activities for the eight months ended December 31, 2006 were \$(24,336,481) of which \$(24,784,142) was for the purchase of marketable securities. Net cash provided by (used in) investing activities was \$1,817,091, \$449,042 and \$(29,754) in fiscal 2006, 2005 and 2004, respectively. The cash provided by investing activities in fiscal 2006 consisted of the receipt of \$1,300,000 on the Company's mortgage receivable as well as proceeds from the condemnation of rental property of \$596,075. Fiscal 2005 was primarily related to the receipt of the aforementioned mortgage receivable in the amount of \$500,000 as well as proceeds from the sale of heavy equipment for \$12,000. The use of cash in all three periods was for capital expenditures.

There was no cash provided by or (used in) financing activities for the eight months ended December 31, 2006. Net cash provided by (used in) financing activities was \$319,018, (\$37,153) and \$428,499 in fiscal 2006, 2005 and 2004, respectively. The net cash provided during the three year period was primarily the result of proceeds from the exercise of stock options. The fiscal 2004 period results also reflect the refinancing of mortgage debt on the Flowerfield property. The net cash (used in) all three periods were a result of the Company's repayment of loans payable. 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 December 31, 2006. The unused portion of the credit line, which is the total line of \$1,750,000, enhances the Company's financial position and liquidity and is available, if needed, to fund any unforeseen expenses.

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As of December 31, 2006, the Company had cash and cash equivalents of \$2,951,287 as well as investments in marketable securities of \$23,797,515 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 \$25,120,659 at December 31, 2006. Net prepaid expenses and other assets shown in the accompanying chart does not include \$23,197 and \$31,035 of furniture and fixtures for the eight months ended and twelve months ended December 31, 2006 and April 30, 2006, respectively.

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The following table presents the Company's working capital for December 31, 2006 and April 30, 2006:

	December 31, 2006 -----	April 30, 2006 -----
Current assets:		
Cash and cash equivalents	\$ 2,951,287	\$ 27,012,688
Investment in marketable securities	23,797,515	-
Deposit on property	504,000	-
Rent receivable, net	106,959	93,173
Interest receivable	468,679	921,385
Net prepaid expenses and other assets	313,848	277,326
	-----	-----
Total current assets	28,142,288	28,304,572
	-----	-----
Current liabilities:		
Accounts payable	687,384	247,088
Accrued liabilities	2,174,460	674,206
Tenant security deposits payable	159,785	163,886
	-----	-----
Total current liabilities	3,021,629	1,085,180
	-----	-----
 Working capital	 \$ 25,120,659	 \$ 27,219,392
	=====	=====

The Company operates as a real estate investment trust for federal and state income tax purposes. As a REIT, the Company is generally not subject to income taxes. To maintain its REIT status, the Company is required to distribute annually as dividends at least 90% of its REIT taxable income, as defined by the Code, to its shareholders, among other requirements. The Company expects to continue to use its cash flow from operating activities to pay distributions to shareholders and to support the operating activities of the Company.

Distributions are determined by the Company's Board of Directors and are dependent on a number of factors, including the amount of funds available for distribution, the Company's financial condition, any decision by the Board of Directors to reinvest funds rather than to distribute the funds, the Company's capital expenditures, the annual distribution required to maintain REIT status under the Internal Revenue Code of 1986, as amended, and other factors the Board of Directors may deem relevant.

During fiscal 2004, the Company restructured an outstanding mortgage loan on the Flowerfield property. That loan was satisfied and incorporated into a newly established revolving credit line in the amount of \$1,750,000 at prime plus one

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percent. At December 31, 2006 and April 30, 2006, the Company had no outstanding indebtedness against this credit facility. Additionally, the Company held a \$1.8 million purchase money mortgage loan in connection with the sale of certain buildings and 12 acres during fiscal 2003. The mortgage loan accrued interest at a rate of 5% and was fully paid with interest in August, 2005.

The following table presents the Company's expected cash requirements for contractual obligations outstanding as of December 31, 2006:

Contractual Obligation	Payments Due By Period				More than 5 Years
	Total	Less than 1 Year	1-3 Years	3-5 Years	
Landmark National	\$3,000,000	\$2,277,778	\$ 666,666	\$ 55,556	\$ -
Accrued Expense	39,390	8,918	17,837	12,635	-
Total Contractual Obligations	\$3,039,390	\$2,286,696	\$ 684,503	\$ 68,191	\$ -

INCOME TAXES

In 2007, effective May 1, 2006, the Company intends to elect to be taxed as a REIT for state income tax and federal income tax purposes under section 856(c)(1) of the Internal Revenue Code (the "Code"). As a result of the election, the Company will convert to a December 31, fiscal year end. As long as the Company qualifies for taxation as a REIT, it generally will not be subject to federal and state income tax. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal and state income tax on its taxable income at regular corporate rates. Unless entitled to relief under specific statutory provisions, the Company will also be

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disqualified for taxation as a REIT for the four taxable years following the year in which it loses its qualification. Even if the Company qualifies as a REIT, it may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed income. The Company believes that it has met all of the REIT distribution and technical requirements for the eight months ended December 31, 2006 and was not subject to any federal and state income taxes. Management intends to continue to adhere to these requirements and maintain the Company's REIT status.

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

LIMITED PARTNERSHIP INVESTMENT

The Company has a limited partnership investment in the Callery-Judge Grove located in Palm Beach County, Florida. The investment represents a 10.93% limited partnership interest in a limited partnership that owns a 3,500+ acre citrus grove. The property is the subject of a plan for a mixed use of residential, commercial, and industrial development which is under review by the

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local municipal and state authorities. The Company is accounting for the investment under the equity method. As of December 31, 2006, the carrying value of the Company's investment was \$0. Based upon the most recent independent third party appraisal, which was conducted by Pinel Appraisal Services, Inc. in June 2006, the Company's investment, strictly on a pro-rata basis, has a current estimated fair value of approximately \$22.5 million without adjustment for minority interest and lack of marketability discount. In the latter part of 2003, the Scripps Research Institute headquartered in La Jolla, California, announced that it would be developing a major east coast center on property located in the general vicinity of the Callery-Judge Grove. Although the Company believes, based on press reports, that this announcement has been the catalyst behind the sale of thousands of acres of land to national developers in the general vicinity of the Grove, it has no current forecast of the likelihood of, or the timing required to achieve approvals for, the development of the Grove.

DEVELOPMENT OF FLOWERFIELD PROPERTY

The Company was a party to two contractual agreements dated April 9, 2002 with Landmark National ("Landmark") pursuant to which Landmark was to design and develop an 18 hole championship golf course community with 336 home sites on the Company's Flowerfield property located in Stony Brook / Saint James, New York, a substantial portion of which has since been condemned by the State University of New York (the "University"). Those contractual agreements were exhibited in the Company's April 30, 2002 10-KSB filing. The golf course agreement called for monthly payments of \$5,000 with a maximum total of \$150,000. As of April 30, 2005, the Company had paid this obligation in full. Additionally, there was a one-time fee of \$100,000 for a grading report on the course layout, which was completed and paid during fiscal 2003. The residential land planning and design contract included monthly payments of \$10,000 with a maximum payment totaling \$300,000. As of April 30, 2005, the Company had also paid this obligation in full. Landmark was also entitled to a construction management fee of 4.5% of construction costs. The balance of Landmark's compensation was an incentive fee of 10% of pre-tax net income from the residential golf course development. Additionally, in a separate agreement for the future, Landmark was under contract to manage the completed golf and clubhouse facilities under a long-term management agreement. The annual fee for such service was \$100,000 commencing upon completion of the golf and clubhouse facilities. The residential land planning and design contract also provided for a termination fee amounting to \$500,000, which is more clearly defined in Notes 13 and 20 to the consolidated financial statements. The Company had accrued a \$500,000 termination fee through April 30, 2006 pursuant to the contract. Following the University's condemnation of the Flowerfield property, the Company was advised by Landmark that it believed it was entitled to 10% of all condemnation proceeds pursuant to the 10% incentive fee provision referred to above.

On February 12, 2007, the Company entered into an agreement with Landmark National to terminate two agreements, the Golf Operating Agreement and the Asset Management Agreement, both dated April 9, 2002. In addition to Landmark agreeing not to pursue any claim under those agreements for 10% of all proceeds related to the condemnation and any future sale and/or development of the remaining Flowerfield acreage, Landmark agreed to provide consulting services in connection with the eminent domain litigation. In consideration for Landmark's agreement not to pursue the foregoing claims, for services previously provided, the Company paid Landmark \$2,000,000, \$500,000 of which was accrued by the Company during its year ended April 30, 2006. Landmark will receive an additional \$1,000,000 over the next thirty-six months, commencing on March 1, 2007, for general consulting, review of pertinent documents, consultations regarding land planning and economic feasibility studies and coordination with project engineers associated with the Company's claim for additional compensation. The Company has accrued \$1,500,000 as additional condemnation expense as of December 31, 2006. The Company intends to add the \$2,000,000 to the existing claim for additional compensation with regard to the condemnation.

The Company has filed an application to develop a gated, age restricted community on the remaining Flowerfield property that includes 39 single-family homes, 60 townhouses and 210 condominiums. Living space would range from 1,600 square feet for the smallest condominiums to 2,800 square feet for detached single-family homes. Amenities would include a clubhouse with recreation facilities, pedestrian and bicycle paths, and extensive landscaping. Prices are currently expected to range from \$850,000 to \$1.45 million per home.

The Company has engaged the firm of Platt Byard Dovell White Architects for design work. The firm enjoys an outstanding reputation for designing attractive residential and commercial properties. Leading the project will be Sam White, FAIA, a partner at the firm who is known specifically for his proven ability to blend historic context into new architecture.

The application asks for the zoning of approximately 62.4 acres to be changed from "light industrial" (approx. 55.5 acres) and "residential" (approx. 6.9 acres) to "planned residential." Another 4.3 acres of the property owned by the Company, while already zoned as "residential," would remain undeveloped. Total amount of open space remaining after development is expected to exceed 40 acres. As indicated in the application, the Company plans in the future to remove the industrial buildings currently in use at the appropriate time.

According to an analysis obtained by the Company, the local road traffic caused by the residential development would be lower than the levels attributed to the current industrial operations. The development also would have a positive impact on the municipal tax base since the age-restricted nature of the community would not affect the local school population. The company estimates that 100 construction jobs and 15 permanent jobs would be created by the project.

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 condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Item 7A Quantitative and Qualitative Disclosures About Market Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and longer-term investments. The Company places its temporary cash investments with high credit quality financial institutions and, by policy, limits the amount of credit exposure in any one financial institution. At times the Company maintains bank account balances, which exceed FDIC limits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash. Management does not believe significant credit risk exists at December 31, 2006, April 30, 2006, 2005 and 2004. As of April 30, 2006, the Company's investments in U.S. Government securities were considered cash equivalents because of the short term nature of the maturities. Subsequent to the close of the fiscal year ended April 30, 2006, the Company invested approximately \$24,000,000 in securitized U.S. Government Agencies with an effective duration of between two and three years. The potential risks associated with this type of investment are more fully discussed in Item 1A.

Item 8 Financial Statements and Supplementary Data

See Consolidated Financial Statements and accompanying Notes to Consolidated

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Financial Statements commencing on the Contents page followed by Page F-1.

Consolidated Financial Statements include:

- (1) Report of Independent Registered Public Accounting Firm
- (2) Consolidated Balance Sheets as of December 31, 2006, April 30, 2006 and April 30, 2005
- (3) Consolidated Statements of Operations for the eight months ended December 31, 2006 and 2005, and the years ended April 30, 2006, April 30, 2005 and April 30, 2004
- (4) Consolidated Statement of Stockholders' Equity for the eight months ended December 31, 2006 and the years ended April 30, 2006, April 30, 2005 and April 30, 2004
- (5) Consolidated Statements of Cash Flows for the eight months ended December 31, 2006 and 2005 and the years ended April 30, 2006, April 30, 2005 and April 30, 2004
- (6) Notes to Consolidated Financial Statements
- (7) Schedules

Schedule II - Valuation and Qualifying Accounts

All other information required by the following schedules has been included in the consolidated financial statements, is not applicable, or not required:

Schedule I, III, IV, V, VI, VII, VIII, IX, X, XI, XII and XIII.

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Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer has concluded that the disclosure controls and procedures as of December 31, 2006 are effective to ensure that information required to be disclosed in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding disclosure.

There have been no significant changes in the Company's internal control over financial reporting identified in connection with the evaluation that occurred during the Company's last fiscal quarter that have materially affected, or that are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Item 9B Other Information

None.

U.S. SECURITIES AND EXCHANGE COMMISSION

PART III

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Item 10. Directors, Executive Officers and Corporate Governance of the Registrant

Information regarding directors, executive officers and corporate governance in the Proxy Statement for the 2007 Annual Meeting of Shareholders is incorporated herein by reference.

Item 11. Executive Compensation

Information regarding executive compensation in the Proxy Statement for the 2007 Annual Meeting of Shareholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners in the Proxy Statement for the 2007 Annual Meeting of Shareholders is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions, and director independence in the Proxy Statement for the 2007 Annual Meeting of Shareholders is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information regarding the fees paid to and services provided by Holtz, Rubenstein Reminick LLP, the Company's independent registered public accounting firm, in the Proxy Statement for the 2007 Annual Meeting of Shareholders is incorporated herein by reference.

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U.S. SECURITIES AND EXCHANGE COMMISSION

PART IV

Item 15 Exhibits and Financial Statement Schedules

(a) Financial Statements:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statement of Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Schedules

Schedule II - Valuation and Qualifying Accounts

All other information required by the following schedules has been included in the consolidated financial statements, is not

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applicable, or not required:
Schedule I, III, IV, V, VI, VII, VIII, IX, X, XI, XII and XIII.

(b) Exhibits: The following Exhibits are either filed as part of this report or are incorporated herein by reference:

- 3.1 Restated Certificate of Incorporation of Gyrodyne Company of America, Inc. (1)
- 3.2 Restated Bylaws of Gyrodyne Company of America, Inc. (7)
- 4.1 Form of Stock Certificate of Gyrodyne Company of America, Inc. (1)
- 4.2 Rights Agreement, dated as of August 10, 2004, by and between Gyrodyne Company of America, Inc. and Registrar and Transfer Company, as Rights Agent, including as Exhibit B the forms of Right Certificate and of Election to Exercise. (3)
- 10.1 1993 Stock Incentive Plan. (1)
- 10.2 1996 Non-Employee Directors' Stock Option Plan. (1)
- 10.3 Carco Group, Inc. Lease Amendment, dated May 3, 1999. (1)
- 10.4 Amendment No. 1 to Lease Agreement with Carin Perez and Luis Perez, dated October 7, 1997. (1)
- 10.5 Incentive Compensation Plan. (1)
- 10.6 Amended and Restated Agreement of Limited Partnership of Callery-Judge Grove, dated as of May 8, 1995, by and among CJG Management, Ltd., as the general partner and those persons and entities whose names and addresses appear on the books and records of the Partnership as partners. (1)
- 10.7 Amended and Restated Employment Agreement, with Stephen V. Maroney, dated January 23, 2003. (4)
- 10.8 Amended and Restated Employment Agreement, with Peter Pitsiokos, dated January 23, 2003. (4)
- 10.9 Asset Management Agreement with DPMG, Inc. dba Landmark National, dated April 9, 2002. (5)
- 10.10 Golf Operating Agreement with DPMG, INC., dated April 9, 2002. (5)
- 10.11 Second Amended and Restated Agreement of Limited Partnership of Callery-Judge Grove, dated as of February 9, 2005, by and among CJG Management, Ltd., as the general partner and those persons and entities whose names and addresses appear on the books and records of the Partnership as partners. (6)
- 10.12 Contract of Sale dated October 12, 2006 with Frank M. Pellicane Realty, LLC and Pelican Realty, LLC (7)
- 10.13 Agreement dated February 12, 2007 with DPMG, Inc. d/b/a Landmark

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National. (7)

10.14 Amended Contract of Sale dated October 12, 2006 with Frank M. Pellicane Realty, LLC and Pelican Realty, LLC (7)

21.1 List of all subsidiaries. (1)

31.1 Rule 13a-15(e)/15d-15(e) Certifications. (7)

32.1 CEO/CFO Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (7)

- (1) Incorporated herein by reference to the Annual Report on Form 10-KSB/A, filed with the Securities and Exchange Commission on September 5, 2001.
- (2) Incorporated herein by reference to Form 8-K, filed with the Securities and Exchange Commission on May 2, 2006.
- (3) Incorporated herein by reference to Form 8-K, filed with the Securities and Exchange Commission on August 13, 2004.
- (4) Incorporated herein by reference to the Quarterly Report on Form 10-QSB, filed with the Securities and Exchange Commission on March 12, 2003.
- (5) Incorporated herein by reference to the Annual Report on Form 10-KSB, filed with the Securities and Exchange Commission on July 26, 2002.
- (6) Incorporated herein by reference to the Annual Report on Form 10-KSB, filed with the Securities and Exchange Commission on July 5, 2005.
- (7) Filed as part of this Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

GYRODYNE COMPANY OF AMERICA, INC.

/S/ Stephen V. Maroney

Stephen V. Maroney, President, Treasurer and Principal Executive Officer
Date: March 12, 2007

/S/ Frank D'Alessandro

Frank D'Alessandro, Controller
Date: March 12, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report

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has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/S/ Richard B. Smith

Richard B. Smith, Director
Date: March 12, 2007

/S/ Elliot H. Levine

Elliot H. Levine, Director
Date: March 12, 2007

/S/ Ronald J. Macklin

Ronald J. Macklin, Director
Date: March 12, 2007

/S/ Stephen V. Maroney

Stephen V. Maroney, Director
Date: March 12, 2007

/S/ Paul L. Lamb

Paul L. Lamb, Director
Date: March 12, 2007

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GYRODYNE COMPANY OF AMERICA,
AND SUBSIDIARIE

Contents

Eight Months Ended December 31, 2006 and Years Ended April 30, 2006, 2005 and 2004	Pages
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets	F-2
Consolidated Statements of Operations	F-3
Consolidated Statement of Stockholders' Equity	F-4
Consolidated Statements of Cash Flows	F-5
Notes to Consolidated Financial Statements	F-6 - F-25

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Gyrodyne Company of America, Inc.

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St. James, New York

We have audited the accompanying consolidated balance sheets of Gyrodyne Company of America, Inc. and Subsidiaries (the "Company") as of December 31, 2006, April 30, 2006 and 2005 and the related consolidated statements of operations, stockholders' equity and cash flows for the eight months ended December 31, 2006 and the years ended April 30, 2006, 2005 and 2004. We have also audited the schedule listed in Item 8 (7) of this Form 10-K for the eight months ended December 31, 2006 and the years ended April 30, 2006, 2005, and 2004. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gyrodyne Company of America, Inc. and Subsidiaries as of December 31, 2006, April 30, 2006 and 2005 and the results of their operations and their cash flows for the eight months ended December 31, 2006 and the years ended April 30, 2006, 2005 and 2004 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related consolidated financial statement schedule for the eight months ended December 31, 2006 and the years ended April 30, 2006, 2005 and 2004 when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standard No. 123 (R), "Share-Based Payment" effective May 1, 2006.

Melville, New York
March 12, 2007

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GYRODYNE COMPANY

Consolidated Balance Sheets	December 31,	
	2006	2006
Assets		
Real Estate:		
Rental property:		
Land	\$ 3,017	\$ 3,017
Building and improvements	3,140,332	2,876,08

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Machinery and equipment	179,335	157,79
	-----	-----
	3,322,684	3,036,90
Less Accumulated Depreciation	2,500,907	2,492,81
	-----	-----
	821,777	544,08
	-----	-----
Land held for development:		
Land	558,466	558,46
Land development costs	321,514	8,70
	-----	-----
	879,980	567,17
	-----	-----
Total Real Estate, net	1,701,757	1,111,25
Cash and Cash Equivalents	2,951,287	27,012,68
Investment in Marketable Securities	23,797,515	
Deposit on Property	504,000	
Rent Receivable, net of allowance for doubtful accounts of \$46,000, \$30,000 and \$37,000, respectively	106,959	93,17
Interest Receivable	468,679	921,38
Mortgage Receivable	-	
Prepaid Expenses and Other Assets	337,045	308,36
Prepaid Pension Costs	1,080,473	1,133,49
	-----	-----
Total Assets	\$ 30,947,715	\$ 30,580,35
	=====	=====
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	\$ 687,384	\$ 247,08
Accrued liabilities	2,174,460	674,20
Deferred gain on sale of real estate	-	
Tenant security deposits payable	159,785	163,88
Loans payable	-	
Deferred income taxes	8,135,000	9,358,00
	-----	-----
Total Liabilities	11,156,629	10,443,18
	-----	-----
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, \$1 par value; authorized 4,000,000 shares; 1,531,086 shares issued	1,531,086	1,531,08
Additional paid-in capital	8,205,134	8,399,13
Accumulated Other Comprehensive Income		
Unrealized Gain from Marketable Securities	280,042	
Balance of undistributed income from other than gain or loss on sales of properties	11,615,310	12,047,44
	-----	-----
	21,631,572	21,977,66
Less Cost of Shares of Common Stock Held in Treasury; 293,867, 293,867 and 317,408 shares, respectively	(1,840,486)	(1,840,48
	-----	-----
Total Stockholders' Equity	19,791,086	20,137,17
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 30,947,715	\$ 30,580,35
	=====	=====

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See notes to consolidated financial statements.

Consolidated Statements of Operations	Eight Months Ended December 31,		
	2006	2005	2006
	(Unaudited)		
Revenues			
Rental income	\$ 893,311	\$ 1,205,991	\$ 1,626,6
Interest income	932,451	421,569	1,084,1
	1,825,762	1,627,560	2,710,7
Expenses			
Rental expenses	469,037	389,601	655,1
General and administrative expenses	1,671,833	1,330,388	2,373,2
Depreciation	34,027	47,822	62,1
Interest expense	-	-	-
	2,174,897	1,767,811	3,090,5
(Loss) income from operations before gains on sales of equipment and real estate investments and cumulative effect unting changes	(349,135)	(140,251)	(379,8
Gain on sale of equipment	-	-	-
(Loss) gain on condemnation of rental property	(1,500,000)	20,710,339	20,710,3
Gain on sale of real estate	-	1,136,705	1,136,7
	(1,849,135)	21,706,793	21,467,2
(Benefit) Provision for Income Taxes	(1,417,000)	8,682,717	8,351,9
Net (Loss) Income	\$ (432,135)	\$ 13,024,076	\$ 13,115,3
Net (Loss) Income Per Common Share:			
Basic	\$ (0.35)	\$ 10.62	\$ 10.
Diluted	\$ (0.35)	\$ 10.25	\$ 10.
Weighted Average Number of Common Shares Outstanding:			
Basic	1,237,219	1,225,868	1,229,5
Diluted	1,237,219	1,270,889	1,274,0

See notes to consolidated financial statements.

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net cash provided by (used in) operating activities:			
Depreciation and amortization	47,109	76,931	105,8
Bad debt expense	16,000	16,000	24,0
Deferred income tax (benefit) provision	(1,417,000)	8,284,135	7,947,0
Stock based compensation	-	-	
Net periodic pension benefit cost	53,024	77,353	116,0
Gain on condemnation of rental property	-	(414,349)	(414,3
Gain on sale of equipment	-	-	
Gain on sale of rental real estate	-	(1,136,705)	(1,136,7
Changes in operating assets and liabilities:			
(Increase) decrease in assets:			
Land development costs	(312,807)	4,666,501	4,657,7
Accounts receivable	(29,786)	(87,195)	(54,8
Interest receivable	452,706	(382,829)	(921,3
Condemnation advance payment receivable	-	(26,315,000)	
Prepaid expenses and other assets	(38,480)	28,027	4,0
Prepaid pension costs	-	(50,000)	(50,0
Increase (decrease) in liabilities:			
Accounts payable	440,296	138,067	169,1
Accrued liabilities	1,500,254	491,720	535,6
Income taxes payable	-	238,548	
Tenant security deposits	(4,101)	(17,145)	(65,3
Total adjustments	707,215	(14,385,941)	10,916,8
Net Cash Provided by (Used in) Operating Activities	275,080	(1,361,865)	24,032,1
Cash Flows from Investing Activities:			
Costs associated with property, plant and equipment	(315,008)	-	(78,9
Deposit on property	(504,000)	-	
Proceeds on condemnation of rental property	-	596,075	596,0
Proceeds from sale of equipment	-	-	
Proceeds from mortgage receivable	-	1,300,000	1,300,0
Purchases of marketable securities	(24,784,142)	-	
Principal repayments on investment in marketable securities	1,266,669	-	
Net Cash (Used in) Provided by Investing Activities	(24,336,481)	1,896,075	1,817,0
Cash Flows from Financing Activities:			
Repayment of loans payable	-	(4,941)	(7,4
Loan origination fees	-	-	
Proceeds from exercise of stock options	-	252,378	326,4
Net Cash Provided by (Used in) Financing Activities	-	247,437	319,0
Net (Decrease) Increase in Cash and Cash Equivalents	(24,061,401)	781,647	26,168,2
Cash and Cash Equivalents, beginning of period	27,012,688	844,405	844,4
Cash and Cash Equivalents, end of period	\$ 2,951,287	\$ 1,626,052	\$ 27,012,6

See notes to consolidated financial statements.

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GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Eight Months Ended December 31, 2006 and Years Ended April 30, 2006, 2005
and 2004

1. Summary of Significant Accounting Policies

Organization and nature of operations - Gyrodyne Company of America, Inc. and Subsidiaries (the "Company") is primarily a lessor of industrial and commercial real estate to unrelated diversified entities located in Long Island, New York, and is also pursuing development plans of its remaining real estate holdings. In 2007, effective May 1, 2006, the Company intends to elect to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended and as such has changed its fiscal year end to December 31 and therefore is reporting the eight months ended December 31, 2006.

The State University of New York at Stony Brook has acquired part of the Company's real estate property located in Stony Brook/St. James, New York through eminent domain. See Note 20.

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

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

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

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

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 are less than the carrying value of the property. Such cash flows consider factors such as expected future

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operating income, trends and prospects, as well as the effects of demand, competition and other factors. To the extent impairment occurs, the loss will be measured as the excess of the carrying amount of the property over the fair value of the property.

The Company is required to make subjective assessments as to whether there are impairments in the value of its real estate properties and other investments. These assessments have a direct impact on the Company's net income, since an impairment charge results in an immediate negative adjustment to net income.

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

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GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Eight Months Ended December 31, 2006 and Years Ended April 30, 2006, 2005
and 2004

Buildings and Improvements	10 to 30 years
Machinery and Equipment	3 to 20 years

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

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

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

Investments - The Company has a 10.93% limited partnership interest in Callery-Judge Grove, L.P. (the "Grove") that owns a 3500+ acre citrus grove in Palm Beach County, Florida. The Company is accounting for this investment under the equity method in accordance with Emerging Issue Task Force ("EITF") Topic D-46 "Accounting for Limited Partnership Investments" and the guidance in paragraph 8 of AICPA Statement of Position ("SOP") 78-9, "Accounting for Investments in Real Estate Ventures."

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

Investment in Marketable Securities - Marketable securities are carried at

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fair value and consist primarily of investments in marketable equity securities. We classify our marketable securities portfolio as available-for-sale. This portfolio is continually monitored for differences between the cost and estimated fair value of each security. If we believe that a decline in the value of an equity security is temporary in nature, we record the change in other comprehensive income (loss) in stockholders' equity. If the decline is believed to be other than temporary, the equity security is written down to the fair value and a realized loss is recorded on our statement of operations. There was no realized loss recorded by us due to the write down in value for the eight months ended December 31, 2006 and years ended April 30, 2006 and 2005. Our assessment of a decline in value includes, among other things, our current judgment as to the financial position and future prospects of the entity that issued the security. If that judgment changes in the future, we may ultimately record a realized loss after having initially concluded that the decline in value was temporary.

Deposit on Property - Deposits are paid on properties the Company is evaluating for purchase. Real estate deposits are capitalized when paid and may become nonrefundable under certain circumstances. When properties are acquired, the purchase price is reduced by the amounts of deposits paid by the Company. At December 31, 2006, management believes all real estate deposits are refundable.

Net income (loss) per common share and per common equivalent share - The reconciliations for the eight months ended December 31, 2006 and the years ended April 30, 2006, 2005 and 2004 are as follows:

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GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Eight Months Ended December 31, 2006 and Years Ended April 30, 2006, 2005 and 2004

Eight Months Ended December 31, 2006	Loss	Shares	Per S
Basic EPS	\$ (432,135)	1,237,219	\$
Effect of Dilutive Securities - common stock options	-	-	-
Diluted EPS	\$ (432,135)	1,237,219	\$
<hr/>			
Year Ended April 30, 2006	Income	Shares	Per S
Basic EPS	\$ 13,115,317	1,229,582	\$
Effect of Dilutive Securities - common stock options	-	44,452	-
Diluted EPS	\$ 13,115,317	1,274,034	\$
<hr/>			
Year Ended April 30, 2005	Loss	Shares	Per S

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Basic EPS	\$ (137,648)	1,180,469	\$
Effect of Dilutive Securities - common stock options	-	-	
	-----	-----	-----
Diluted EPS	\$ (137,648)	1,180,469	\$
	=====	=====	=====

Year Ended April 30, 2004

	Income	Shares	Per S
-----	-----	-----	-----
Basic EPS	\$ (113,466)	1,133,896	\$
Effect of Dilutive Securities - common stock options	-	-	
	-----	-----	-----
Diluted EPS	\$ (113,466)	1,133,896	\$
	=====	=====	=====

Income taxes - In 2007, effective May 1, 2006, the Company intends to operate as a real estate investment trust for federal and state income tax purposes. As a REIT, the Company is generally not subject to income taxes. To maintain its REIT status, the Company is required to distribute annually as dividends at least 90% of its REIT taxable income, as defined by the Internal Revenue Code ("IRC"), to its shareholders, among other requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to Federal and state income tax on its taxable income at regular corporate tax rates. Although the Company intends to qualify for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property and Federal income and excise taxes on its undistributed income. The Company believes that it has substantially met all of the REIT distribution and technical requirements for the eight months ended December 31, 2006 and was not subject to any federal and state income taxes. Management intends to continue to adhere to these requirements and maintain the Company's REIT status. See Note 20 with regard to contingencies.

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

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

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GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Eight Months Ended December 31, 2006 and Years Ended April 30, 2006, 2005
and 2004

Stock-based compensation - Effective May 1, 2006, the Company's stock

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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 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 eight month period ended December 31, 2006 includes share-based compensation expense totaling \$0.

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and 2004

	Eight Months Ended December 31,		Years Ended April 30,	
	2006	2006	2005	2004
Net (Loss) Income, as reported	\$ (432,135)	\$ 13,115,317	\$ (137,648)	\$ (113,466)
Net (Loss) Income, pro forma	(432,135)	13,115,317	(138,648)	(230,466)
Basic (Loss) Income Per Share, as reported	(.35)	10.67	(.12)	(.10)
Basic (Loss) Income Per Share, pro forma	(.35)	10.67	(.12)	(.20)
Diluted (Loss) Income Per Share, as reported	(.35)	10.29	(.12)	(.10)
Diluted (Loss) Income Per Share, pro forma	(.35)	10.29	(.12)	(.20)

For the purposes of the pro forma presentation, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following range of weighted-average assumptions were used for grants during the fiscal year ended April 30, 2004. There were no stock options granted during the eight months ended December 31, 2006 and the fiscal years ended April 30, 2006 and 2005.

	Eight Months Ended December 31,		Years Ended April 30,	
	2006	2006	2005	2004
Dividend Yield	-	-	-	0.0%
Volatility	-	-	-	32.0%
Risk-Free Interest Rate	-	-	-	2.0%
Expected Life	-	-	-	5 Years

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant assumptions and estimates relate to depreciable lives and the valuation of real estate.

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

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New accounting pronouncements - In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), ("SFAS 123(R)") "Share-Based Payment". This statement replaces SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123(R) requires that the fair value of such equity instruments be recognized as an expense in the historical financial statements as services are performed. Prior to SFAS 123(R), only certain pro forma disclosures of fair value were required. The provisions of this statement were effective for the first annual reporting period that began after December 31, 2005.

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments - An Amendment of FASB No. 133 and 140. The purpose of SFAS Statement No. 155 is to simplify the accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 also eliminates the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of any entity's first fiscal year beginning after September 15, 2006. The Company does not believe that the adoption of this standard on January 1, 2007 will have a material effect on its consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, an Amendment of SFAS No. 140. SFAS No. 156 requires separate recognition of a servicing asset and a servicing liability each time an entity undertakes an obligation to service a financial asset by entering into a servicing contract. This statement also requires that servicing assets and liabilities be initially recorded at fair value and subsequently adjusted to the fair value at the end of each reporting period. This statement is effective in fiscal years beginning after September 15, 2006. The Company does not believe that the adoption of this standard on January 1, 2007 will have a material effect on its consolidated financial statements.

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,

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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 December 31, 2006. 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

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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.

Reclassifications - Certain reclassifications have been made to the consolidated financial statements for the years ended April 30, 2005 and 2004 to conform to the classification used in the current transition period and the fiscal year ended April 30, 2006.

2. Investment in Marketable Securities

The historical cost and estimated fair value of our investments in marketable equity securities as of December 31, 2006 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
Mortgage-backed Securities	\$23,517,473	\$ 280,042	\$ -	\$23,797,515

There were no realized gains or losses on sales of securities available-for-sale for the eight months ended December 31, 2006 and years ended April 30, 2006, 2005 and 2004. The fair value of mortgage-backed securities was estimated using quoted market prices. None of the securities with an unrealized loss at December 31, 2006 are considered to be other-than-temporarily impaired. At December 31, 2006, marketable securities have a contractual maturity of over ten years.

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3. Interest Receivable

In connection with the condemnation of the Flowerfield property, the Company has accrued interest commencing with the date Stony Brook University took title to the property, in November 2005, until the time the Company received the advance payment, in March 2006. Pursuant to the New York State Eminent Domain Procedure Law, both the advance payment and any additional award from the Court of Claims bear interest at the current statutory rate of 9% simple interest from the date of the taking. See Note 20.

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4. Mortgage Receivable

A mortgage receivable in the original principal amount of \$1,800,000 was due from a former tenant in connection with sale of real estate. See Note 11. The mortgage bore interest at 5% per annum with interest only payments due quarterly, commencing in November 2002. The remaining principal and any unpaid interest were paid in August 2005.

5. Investment in Grove Partnership

The Company has a 10.93% limited partnership interest in the Callery-Judge Grove, L.P. (the "Grove"). As of December 31, 2006, April 30, 2006, 2005 and 2004, the carrying value of the Company's investment was \$0.

The Grove has reported to its limited partners that in June 2006 it received an independent appraisal report of the citrus grove property, which is now the subject of development applications. Based upon the appraised value of the citrus grove operations and property, at December 31, and April 30, 2006, strictly on a pro-rata basis, the estimated fair value of the Company's interest in the Grove would be approximately \$22,500,000 and \$18,000,000 respectively, without adjustment for minority interest and lack of marketability discount. The Company cannot predict what, if any, value it will ultimately realize from this investment.

The fiscal year end of the Grove is June 30. Summarized financial information of the Grove as of June 30, 2006, 2005, 2004 and 2003 is as follows:

Years Ended June 30,	2006	2005	2004	2003
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
Total Current Assets	\$ 6,306	\$ 5,226	\$ 5,662	\$ 7,970
Total Assets	23,572	20,419	20,917	23,048
Total Current Liabilities	1,280	1,708	3,071	2,495
Total Liabilities	24,345	17,729	19,076	20,012
Total Partners' Capital	(773)	2,690	1,841	3,036
Total Revenues	2,588	5,915	3,213	8,827
Net Income (Loss)	(3,463)	849	(1,195)	(1,586)

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GYRODYNE COMPANY OF AMERICA, INC.
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6. Accrued Liabilities

Accrued liabilities are as follows:

December 31, April 30,

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	2006	2006	2005
Condemnation costs - termination fee	\$ 2,000,000	\$ 500,000	\$ -
Payroll and related taxes	72,339	72,868	64,445
Professional fees	66,603	61,903	48,302
Directors fees	30,500	19,000	14,000
Other	5,018	20,435	83
Total	\$ 2,174,460	\$ 674,206	\$ 126,830

7. Income Taxes

The Company files a consolidated U.S. federal and state income tax return that includes all 100% owned subsidiaries. State tax returns are filed on a consolidated or separate basis, depending on the applicable laws.

The provision (benefit) for income taxes is comprised of the following:

	Eight Months Ended December 31,		Years Ended April 30,	
	2006	2006	2005	2004
Current:				
Federal	\$ -	\$ 318,905	\$ -	\$ 101,203
State	-	85,999	22,234	(49,442)
	-	404,904	22,234	51,761
Deferred:				
Federal	(837,000)	5,997,000	(96,000)	(103,000)
State	(603,000)	1,950,000	(18,000)	(39,000)
	(1,417,000)	7,947,000	(114,000)	(142,000)
	\$ (1,417,000)	\$ 8,351,904	\$ (91,766)	\$ (90,239)

The components of the net deferred tax liabilities are as follows:

	December 31,		April 30,	
	2006	2006	2005	
Deferred Tax Assets:				
Stock compensation	\$ -	\$ 192,000	\$ 3,000	
Accrued sick and vacation	-	20,000	14,000	
Provision for bad debt	-	10,000	15,000	
Tax loss carryforwards	-	-	27,000	
Contribution carryforwards	-	-	3,000	
Total Deferred Tax Assets	-	222,000	62,000	

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Deferred Tax Liabilities:			
Prepaid pension costs	-	(464,000)	(490,000)
Unrealized gain on investment in Citrus Grove	(502,000)	(654,000)	(569,000)
Gain on condemnation (a)	(7,633,000)	(8,462,000)	-
Land development costs	-	-	(600,000)
Accumulated depreciation	-	-	(8,000)
	-----	-----	-----
Total Deferred Tax Liabilities	(8,135,000)	(9,580,000)	(1,667,000)
	-----	-----	-----
Net Deferred Income Taxes	\$ (8,135,000)	\$ (9,358,000)	\$ (1,605,000)
	=====	=====	=====

The Company had federal net operating loss carryforwards of approximately \$78,000, all of which was utilized in the year ended April 30, 2006 to offset taxable income.

In 2007, effective May 1, 2006, the Company intends to elect to be taxed as a REIT for state income tax and federal income tax purposes under section 856(c)(1) of the Internal Revenue Code (the "Code"). As a result of the election, the Company will convert to a December 31, fiscal year end. As long as the Company qualifies for taxation as a REIT, it generally will not be subject to federal and state income tax. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal and state income tax on its taxable income at regular corporate rates. Unless entitled to relief under specific statutory provisions, the Company will also be disqualified for taxation as a REIT for the four taxable years following the year in which it loses its qualification. Even if the Company qualifies as a REIT, it may be subject to certain state and local taxes on its income and property and to federal income and excise taxes on its undistributed income.

- (a) In accordance with Section 1033 of the Internal Revenue Code, the Company has deferred recognition of the gain on the condemnation of its real property for income tax purposes. If the Company replaces the condemned property with like kind property within three years (or such extended period if requested and approved by the Internal Revenue Service at its discretion) after April 30, 2006, recognition of the gain is deferred until the newly acquired property is disposed of.

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

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	Eight Months Ended		Years Ended April 30,	
	December 31,		2006	2005
	2006	2006	2005	2004
U.S. Federal Statutory Income Rate	-	34.0%	34.0%	34.
State Income Tax, net of federal tax benefits	-	5.8%	7.5%	7.
Reversal of Deferred Taxes Resulting from REIT Election	(76.6)%	-	-	
Other Differences, net	-	(0.9)%	(1.5)%	2.
	(76.6)%	38.9%	40.0%	44.

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8. Retirement Plans

The Company has a noncontributory defined benefit pension plan covering substantially all of its employees. The benefits are based on annual average earnings for the highest sixty (60) months (whether or not continuous) immediately preceding the Participant's termination date. Annual contributions to the plan are at least equal to the minimum amount, if any, required by the Employee Retirement Income Security Act of 1974 but no greater than the maximum amount that can be deducted for federal and state income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date but also those expected to be earned in the future. During the eight months ended December 31, 2006 and the years ended April 30, 2006, 2005 and 2004, the Company made \$0, \$50,000, \$0 and \$0 contributions to the Plan, respectively. The Company does not anticipate a minimum required contribution for the December 31, 2007 plan year.

The following tables provide a reconciliation of the changes in the plan's benefit obligations and fair value of assets over the eight months ended December 31, 2006 and the two-year period ending April 30, 2006, and a statement of the funded status as of December 31 and April 30 for all periods presented:

	December 31,	April 30,	
	2006	2006	2005

Pension Benefits
Reconciliation of Benefit Obligation:

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Obligation	\$ 2,058,304	\$ 2,362,367	\$ 1,996,980
Service cost	86,496	138,426	129,967
Interest cost	85,398	125,276	129,160
Actuarial (gain) loss	198,197	(235,783)	269,290
Benefit payments	(87,059)	(331,982)	(163,040)
Obligation	\$ 2,341,336	\$ 2,058,304	\$ 2,362,367
	December 31,	April 30,	
	2006	2006	2005
Reconciliation at Fair Value of Plan Assets:			
Fair value of plan assets	\$ 3,039,786	\$ 2,938,625	\$ 2,163,700
Actual return on plan assets	855,944	383,143	937,967
Employer Contributions	-	50,000	
Benefit payments	(87,059)	(331,982)	(163,040)
Fair Value of Plan Assets	3,808,671	3,039,786	2,938,625
Funded Status:			
Funded status	1,467,335	981,482	576,250
Unrecognized prior-service cost	-	40,230	112,967
Unrecognized (gain) loss	(386,862)	111,785	510,300
Net Amount Recognized	\$ 1,080,473	\$ 1,133,497	\$ 1,199,520

The accumulated benefit obligation was \$2,010,555, 1,779,044 and \$1,993,167 as of December 31, 2006, April 30, 2006 and 2005, respectively.

The following table provides the components of net periodic benefit cost for the plans for the eight months ended December 31, 2006 and the fiscal years 2006, 2005 and 2004:

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	December 31,		April 30,	
	2006	2006	2005	2004
Pension Benefits				
Service Cost	\$ 86,496	\$ 138,426	\$ 129,967	\$ 86,717
Interest Cost	85,398	125,276	129,160	119,220
Expected Return on Plan Assets	(159,100)	(228,225)	(165,830)	(126,166)

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Amortization of Prior-Service Cost	40,230	72,738	72,738	72,738
Amortization of Net Loss	-	7,814	60,074	84,361
	-----	-----	-----	-----
Net Periodic Benefit Cost After Curtailments and Settlements	\$ 53,024	\$ 116,029	\$ 226,109	\$ 236,870
	=====	=====	=====	=====

The prior-service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

The Plan's expected return on plan assets assumption is derived from a detailed periodic review conducted by the Plan's actuaries and the Plan's asset management group. The review includes an analysis of the asset allocation strategy, anticipated future long-term performance of individual asset classes, risks and correlations for each of the asset classes that comprise the funds' asset mix. While the review gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate.

The assumptions used in the measurement of the Company's benefit obligation are shown in the following table:

	December 31,	April 30,	
	2006	2006	2005
	-----	-----	-----
Pension Benefits			
Weighted-Average Assumptions			
Discount rate	5.77%	6.21%	5.75%
Expected return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	5.00%	5.00%	5.00%

The Plan's investment objectives are expected to be achieved through a portfolio mix of Company stock and cash and cash equivalents which reflect the Plan's desire for investment return while controlling total portfolio risk to an acceptable level.

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

	December 31,	April 30,	
	2006	2006	2005
	-----	-----	-----
Common Stock - Gyrodyne Company of America, Inc.	98.6%	94.5%	93.7%
United States Government Securities	-	-	1.1%
Corporate Equity Securities	-	-	0.3%
Other Funds	1.4%	5.5%	4.9%
	-----	-----	-----
Total	100.0%	100.0%	100.0%
	=====	=====	=====

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

	December 31,	April 30,	
	2006	2006	2005
Number of Shares	60,580	60,580	67,580
Market Value	\$3,755,960	\$2,871,492	\$2,753,885

Expected approximate future benefit payments are as follows:

Years Ending December 31,	Amount
2007	\$ 167,322
2008	163,459
2009	153,518
2010	143,730
2011	159,920
2012 - 2016	671,305

9. Stock Option Plans

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

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

ISOs were granted along with Stock Appreciation Rights, which permitted the holder to tender the option to the Company in exchange for stock, at no cost to the optionee, that represented the difference between the option price and the fair market value on date of exercise. NQSOs were issued with Limited Stock Appreciation Rights, which were exercisable, for cash, in the

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event of a change of control. In addition, an incentive kicker was provided for Stock Grants, ISOs and NQSOs, which increased the number of grants or options based on the market price of the shares at exercise versus the option price.

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

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A summary of the Company's various fixed stock option plans as of December 31, 2006 and April 30, 2006, 2005 and 2004, and changes during the years then ended is presented below:

	Eight Months Ended December 31,		Years Ended April 30			
	2006		2006		2005	
Fixed Stock Options	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	67,105	\$ 16.42	91,030	\$ 15.87	164,650	\$ 16.30
Granted	-	-	-	-	-	-
Exercised	-	-	(23,541)	14.36	(57,946)	16.92
Forfeited	-	-	(384)	13.46	(15,674)	16.50
Canceled	-	-	-	-	-	-
Outstanding, end of period	67,105	\$ 16.42	67,105	16.42	91,030	15.87
Options Exercisable, year end	67,105	\$ 16.42	67,105	16.42	91,030	15.87
Weighted-Average Fair Values of Options Granted						

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to eligible participants based upon their respective weighted percentages (ranging from .5% to 18.5%).

10. Revolving Credit Line

The Company's line of credit has a maximum borrowing limit of \$1,750,000, bears interest at the lending institution's prime-lending rate (8.25% at December 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 December 31, 2006, April 30, 2006 and 2005, \$1,750,000 was available under this agreement and the Company was in compliance with the financial covenants.

11. Sale of Real Estate

On August 8, 2002, the Company sold approximately twelve acres of property and certain buildings with a carrying value of approximately \$559,000 to an existing tenant. The contract of sale amounted to \$5,370,000 under which the Company received a cash payment of approximately \$3,600,000 and a three-year mortgage for \$1,800,000 with interest at 5%. The profit on the sale of the land and buildings was \$4,700,000 net of transaction costs of approximately \$113,000. Pursuant to SFAS No. 66, approximately \$1,570,000 of the gain on this sale was deferred. The deferred gain was recognized upon collection of the entire related mortgage receivable in August 2005.

During the fiscal year ended April 30, 2006, the Company received cash payments from its mortgage receivable totaling \$1,300,000 and recognized a gain on the sale of real estate of approximately \$1,137,000.

12. Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and U.S. Government securities. The Company places its temporary cash investments with high credit quality financial institutions and generally limits the amount of credit exposure in any one financial institution. At times the Company maintains bank account balances, which exceed FDIC limits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash. Management does not believe significant credit risk exists at December 31, 2006, April 30, 2006, 2005 and 2004.

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GYRODYNE COMPANY OF AMERICA, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Eight Months Ended December 31, 2006 and Years Ended April 30, 2006, 2005
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13. Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

Eight Months Ended	Years Ended April 30,
December 31,	

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	2006	2006	2005	2004
Interest	\$ -	\$ -	\$ 35,217	\$ 38,850
Income Taxes	\$ 31,193	\$ 400,085	\$ 30,000	\$ 204,768

14. Commitments

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:

Years Ending December 31,,	Amount
2007	\$ 881,000
2008	468,000
2009	291,000
2010	237,000
2011	183,000
Thereafter	1,512,000
	\$ 3,572,000

The Company was leasing office space in St. James, New York on a month-to-month basis through April 30, 2006. Rental expense approximated \$55,000, \$54,000 and \$57,000 for the years ended April 30, 2006, 2005 and 2004, respectively. On May 1, 2006, the Company moved into its current facility which it owns and therefore no longer has rent expense.

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

Land development contract - The Company entered into a Golf Operating and Asset Management Agreement (the "Agreement") with Landmark National ("Landmark") for the design and development of an 18-hole championship golf course community. As a result of the State University of New York at Stony Brook's ("the University's") condemnation of the Flowerfield property, the Company accrued a \$500,000 termination fee pursuant to the contract during the twelve months ended April 30, 2006. The Company has reached an agreement on a claim arising from the cancellation of the agreement and has accrued an additional \$1,500,000 for the eight months ended December 31, 2006. (SEE NOTE 21 "Subsequent Events")

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GYRODYNE COMPANY OF AMERICA, INC.
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Notes to Consolidated Financial Statements

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Eight Months Ended December 31, 2006 and Years Ended April 30, 2006, 2005 and 2004

15. Fair Value of Financial Instruments

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

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

The estimated fair value of the Company's investment in the Callery Judge Grove Partnership at December 31, 2006, based upon an independent third party appraisal report, is approximately \$22,500,000 without adjustment for minority and lack of marketability discount, based on the Company's ownership percentage.

16. Related Party Transactions

A law firm related to a director provided legal services to the Company for which it was compensated approximately \$3,000, \$7,000, \$110,000 and \$229,000 for the eight months ended December 31, 2006 and the years ended April 30, 2006, 2005 and 2004, respectively. As of January 1, 2005, the aforementioned law firm is no longer primary outside legal counsel to the Company.

17. Major Customers

For the eight months ended December 31, 2006 rental income from the three largest tenants represented 14%, 11% and 11% of total rental income.

For the year ended April 30, 2006 rental income from the three largest tenants represented 11%, 9% and 9% of total rental income.

For the year ended April 30, 2005 rental income from the three largest tenants represented 14%, 13% and 10% of total rental income.

For the year ended April 30, 2004 rental income from the three largest tenants represented 17%, 13% and 12% of total rental income.

18. Supplementary Information - Quarterly Financial Data (Unaudited)

	Three Months Ended July 31, 2006	Three Months Ended October 31, 2006	Two Months Ended December 31, 2006
Eight Months Ended December 31, 2006			
<hr/>			
Rental Income	\$ 332,924	\$ 337,499	\$ 222,888
Rental Property Expense	(169,191)	(172,618)	(127,228)
Income from Rental Property	163,733	164,881	95,660
Net (Loss) Income	\$ (54,104)	\$ 12,527	\$ (390,558)
<hr/>			
Net (Loss) Income Per Common Share Basic	\$ (.04)	\$ 0.01	\$ (.32)

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Diluted	=====	=====	=====
	\$ (.04)	\$ 0.01	\$ (.32)
	=====	=====	=====

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GYRODYNE COMPANY OF AMERICA, INC.
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Eight Months Ended December 31, 2006 and Years Ended April 30, 2006, 2005
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Year Ended April 30, 2006	First	Second	Third	Fourth
Rental Income	\$ 494,534	\$ 486,166	\$ 332,477	\$ 311,111
Rental Property Expense	(129,382)	(133,028)	(213,271)	(171,111)
Income from Rental Property	365,152	353,138	119,206	140,000
Net Income	\$ 111,697	\$ 475,461	\$ 12,427,569	\$ 10,000
Net Income Per Common Share				
Basic	\$ 0.09	\$ 0.39	\$ 10.08	\$ 10.00
Diluted	\$ 0.09	\$ 0.37	\$ 9.75	\$ 10.00
Year Ended April 30, 2005	First	Second	Third	Fourth
Rental Income	\$ 499,922	\$ 527,622	\$ 506,771	\$ 500,000
Rental Property Expense	(172,456)	(194,326)	(222,089)	(350,000)
Income from Rental Property	327,466	333,296	284,682	150,000
Net (Loss) Income	\$ (52,786)	\$ (35,634)	\$ (88,141)	\$ 300,000
Net (Loss) Income Per Common Share				
Basic	\$ (0.05)	\$ (0.03)	\$ (0.07)	\$ 3.00
Diluted	\$ (0.05)	\$ (0.03)	\$ (0.07)	\$ 3.00

Certain reclassifications between rental property expenses and general and administrative expenses were made in fiscal 2005 to conform to the classification used in the eight months ended December 31, 2006 and the fiscal year ended April 30, 2006.

19. Interest Income

Interest income consists of the following:

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	Eight Months Ended			
	December 31,	Years Ended April 30,		
	2006	2006	2005	2004
Interest on Condemnation Advance Payment	\$ -	\$ 921,385	\$ -	\$ -
Interest Income on Investments	799,447	111,877	-	-
Interest Income - Other	133,004	50,844	102,852	111,721
	<u>\$ 932,451</u>	<u>\$1,084,106</u>	<u>\$ 102,852</u>	<u>\$ 111,721</u>

20. Contingencies

On November 2, 2005, the State University of New York at Stony Brook (the "University") filed an acquisition map with the Suffolk County Clerk's office and vested title in 245.5 acres of the Company's Flowerfield Property pursuant to the New York Eminent Domain Procedure Law (the "EDPL"). On March 27, 2006, the Company received payment from the State of New York in the amount of \$26,315,000, which the Company had previously elected under the EDPL to accept as an advance payment for the property. Under the EDPL, both the advance payment and any additional award from the Court of Claims bear interest at the current statutory rate of 9% simple interest from the date of the taking through the date of payment.

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GYRODYNE COMPANY OF AMERICA, INC.
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Notes to Consolidated Financial Statements

Eight Months Ended December 31, 2006 and Years Ended April 30, 2006, 2005 and 2004

On May 1, 2006, the Company filed a Notice of Claim with the Court of Claims of the State of New York seeking \$158 million in damages from the University resulting from the condemnation of the 245.5 acres of the Company's Flowerfield property. While the Company believes that a credible case for substantial additional compensation can be made, it is possible that the Company may be awarded a different amount than is being requested, including no compensation, or an amount that is substantially lower than the Company's claim for \$158 million. It is also possible that the Court of Claims could ultimately permit the State to recoup part of its advance payment to the Company.

Faith Enterprises, an operator of a child care center as a franchisee of Kiddie Academy, leases a suite of offices from the Company under a 15-year lease which commenced in March 2005 with a five-year option. Beginning approximately July 2005 and continuing to the present, Faith Enterprises failed to pay the full monthly rent due under the lease and remain current with their obligations. The Company served Faith Enterprises with a series of default notices. The franchisor was also notified of the default but has not chosen to terminate the franchise agreement nor pay the rent deficiency

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on behalf of the franchisee. In February 2007, the Company served Faith Enterprises with a 10-day notice of default. Faith Enterprises then commenced this action in New York State Supreme Court for Suffolk County seeking damages for breach of contract, fraudulent inducement and tortious interference with business, claiming that the Company's issuance of press releases in December 2006 and January 2007 about its submission of an application to the Town of Smithtown to rezone its property caused Faith Enterprises financial damages in lost clientele. Faith Enterprises is seeking \$7 million in damages on each of the three claims and is requesting that it not pay rent during the pendency of the proceeding. Faith Enterprises also filed an application for a Yellowstone injunction and a preliminary injunction to forestall the Company from proceeding with the non-payment eviction proceeding. The Company opposed that application and, in an order dated February 21, 2007, the Court denied Faith Enterprises' request in its entirety. The Company also served and filed a motion to dismiss the entire case. That motion is currently returnable on March 28, 2007. The Company also commenced a proceeding in district court seeking to evict Faith Enterprises for non-payment of rent. That proceeding was commenced in March 2007, upon the Supreme Court's decision denying Faith Enterprises' request for injunctive relief.

Our Board of Directors has authorized us to take the steps necessary to elect to be taxed as a REIT. Currently, we plan on electing REIT status in 2007, effective as of May 1, 2006. There can be no assurance that we will be organized in conformity with the requirements for qualification as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, or that our proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT. Given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given that we will so qualify for any particular year. We do not intend to request a ruling from the Internal Revenue Service as to our qualification as a REIT.

Furthermore, our qualification as a REIT will depend on its satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis. Our ability to satisfy the asset tests will depend upon our analysis of the fair market values of our assets, some of which are not susceptible to a precise determination. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to manage successfully the composition of our income and assets on an ongoing basis.

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Notes to Consolidated Financial Statements

Eight Months Ended December 31, 2006 and Years Ended April 30, 2006, 2005
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On October 12, 2006, the Company entered into a Contract of Sale (the "Contract"), which was amended in January, 2007, by and between the Company and Frank M. Pellicane Realty, 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

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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") with a current occupancy rate of 97%. The purchase price per square foot is \$221.25 and the aggregate monthly rent flow from the property is currently \$73,941.50. Other than with respect to the Contract itself, there is no material relationship between the Company and the Seller.

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. 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 Company has applied for and has been approved to assume the mortgage if it so desires. The bank required an additional deposit of \$4,000 relating to the assumption of the existing mortgage. Upon acquisition, the Company intends to continue to operate the office space pursuant to existing leases. It is anticipated that the transaction will close in April 2007. The contract was amended in January 2007 to provide that the seller will be responsible for the cost of remediating the contaminated on-site sanitary waste disposal systems and stormwater drywells, which was discovered by the Company during the due diligence examination.

If the Company does not replace the condemned property in accordance with Internal Revenue Code section 1033, the gain on condemnation of the Company's Flowerfield property will be subject to federal and state taxes. The Company must replace the condemned property by April 2009. The Port Jefferson Professional Park qualifies as replacement property under IRC section 1033.

21. Subsequent Events

On February 12, 2007, the Company entered into an agreement with Landmark National to terminate two agreements, the Golf Operating Agreement and the Asset Management Agreement, both dated April 9, 2002. In addition to abandoning its claim for 10% of all proceeds related to the condemnation and any sale and/or development of the remaining Flowerfield acreage, Landmark agreed to provide consulting services in connection with the eminent domain litigation. The agreement also includes consideration for previously provided services. The Company paid Landmark \$2,000,000, of which \$500,000 was accrued by the Company during its year ended April 30, 2006. In addition the Company retained Landmark and will pay them \$1,000,000 over the next thirty-six months, commencing on March 1, 2007, for general consulting, review of pertinent documents, consultations regarding land planning and economic feasibility studies and coordination with project engineers associated with the Company's claim for additional compensation. As a result of the initial payment due of \$2,000,000, the Company has accrued \$1,500,000 as additional condemnation expense for the eight months ended December 31, 2006. The Company intends to add the \$2,000,000 to the existing claim for additional compensation with regard to the condemnation.

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Schedule II - Valuation and Qualifying Accounts

Additions

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	Balance at Beginning of Period	Charged to Expenses	Charged to Other Accounts	Deductions	Bala of

Eight Months Ended December 31, 2006					
Allowance for Doubtful Accounts (a)	\$ 30,131 =====	\$ 16,000 =====	\$ 0 =====	\$ 0 =====	\$ =====
Year End April 30, 2006					
Allowance for Doubtful Accounts (a)	\$ 36,934 =====	\$ 24,000 =====	\$ 0 =====	\$ 30,803 (b) =====	\$ =====
Year End April 30, 2005					
Allowance for Doubtful Accounts (a)	\$ 71,261 =====	\$ 57,000 =====	\$ 0 =====	\$ 91,327 (b) =====	\$ =====
Year End April 30, 2004					
Allowance for Doubtful Accounts (a)	\$ 40,861 =====	\$ 48,000 =====	\$ 0 =====	\$ 17,600 (b) =====	\$ =====

(a) - Deducted from accounts receivable.

(b) - Uncollectible accounts receivable charged against allowance.