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GYRODYNE CO OF AMERICA INC  
Form 10QSB  
December 13, 2002

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

Form 10-QSB

(Mark One)

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

For the quarterly period ended OCTOBER 31, 2002

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

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

Commission file number 0-1684

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

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

11-1688021  
(IRS Employer Identification No.)

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common  
equity, as of the latest practicable date:  
1,115,862 Common \$1 P.V. as of November 19, 2002

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

	October 31, 2002
	-----
ASSETS	
REAL ESTATE	
Rental property:	
Land	\$ 4,250
Building and improvements	3,915,361
Machinery and equipment	116,851
	-----
	4,036,462
Less accumulated depreciation	3,228,528
	-----
	807,934
	-----
Land held for development:	
Land	792,201
Land development costs	1,985,725
	-----
	2,777,926
	-----
Total real estate, net	3,585,860
CASH AND CASH EQUIVALENTS	2,749,773

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RENT RECEIVABLE, net of allowance for doubtful accounts of \$40,862	62,476
MORTGAGE RECEIVABLE	1,800,000
PREPAID EXPENSES AND OTHER ASSETS	314,794
INVESTMENT IN CITRUS GROVE PARTNERSHIP	1,585,104
PREPAID PENSION COSTS	1,724,785
	-----
	\$ 11,822,792
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:

Accounts payable and accrued expenses	\$ 225,766
Tenant security deposits payable	238,366
Loans payable	668,977
Deferred income taxes	2,480,445
Deferred gain on sale of real estate	1,573,899
	-----
Total liabilities	5,187,453
	-----

STOCKHOLDERS' EQUITY:

Common stock, \$1 par value; authorized 4,000,000 shares; 1,531,086 shares issued and outstanding	1,531,086
Additional paid-in capital	7,272,197
Retained earnings	370,345
	-----
	9,173,628
Less cost of shares of common stock held in treasury	(2,538,289)
	-----
Total stockholders' equity	6,635,339
	-----
	\$ 11,822,792
	=====

See notes to consolidated financial statements

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

	Six Months Ended October 31,		Three Months Ended October 31,	
	2002	2001	2002	2001
	-----	-----	-----	-----
REVENUE FROM RENTAL PROPERTY	\$1,222,763	\$1,327,578	\$ 557,596	\$ 672,286
	-----	-----	-----	-----
RENTAL PROPERTY EXPENSES:				
Real estate taxes	199,614	207,230	87,856	103,615
Operating and maintenance	180,097	296,980	96,093	136,019

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Interest expense	31,569	31,554	16,971	15,790
Depreciation	44,890	52,805	18,895	26,713
	-----	-----	-----	-----
	456,170	588,569	219,815	282,137
	-----	-----	-----	-----
INCOME FROM RENTAL PROPERTY	766,593	739,009	337,781	390,149
	-----	-----	-----	-----
GENERAL AND ADMINISTRATIVE	709,178	557,189	362,903	321,782
	-----	-----	-----	-----
INCOME (LOSS) FROM OPERATIONS	57,415	181,820	(25,122)	68,367
	-----	-----	-----	-----
OTHER INCOME:				
Gain on sale of real estate	3,124,307	0	3,124,307	0
Gain on sale of equipment	0	6,500	0	6,500
Interest income	29,390	34,023	27,496	14,585
	-----	-----	-----	-----
	3,153,697	40,523	3,151,803	21,085
	-----	-----	-----	-----
INCOME BEFORE INCOME TAX	3,211,112	222,343	3,126,681	89,452
PROVISION FOR INCOME TAXES	1,284,445	93,937	1,250,673	40,781
	-----	-----	-----	-----
NET INCOME	\$1,926,667	\$ 128,406	\$ 1,876,008	\$ 48,671
	=====	=====	=====	=====
NET INCOME PER COMMON SHARE:				
Basic	\$1.73	\$0.11	\$1.69	\$0.04
	=====	=====	=====	=====
Diluted	\$1.71	\$0.11	\$1.67	\$0.04
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	1,112,149	1,118,311	1,112,402	1,118,311
	=====	=====	=====	=====
Diluted	1,126,235	1,130,476	1,125,242	1,129,933
	=====	=====	=====	=====

See notes to consolidated financial statements

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

Six Months Ended  
October 31,

-----  
2002

-----  
2001

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	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 1,926,667	\$ 128,406
	-----	-----
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	53,156	58,766
Bad debt expense	40,862	6,000
Deferred income tax provision	1,284,445	88,937
Stock compensation	54,331	0
Pension expense	129,940	17,451
Gain on sale of equipment	0	(6,500)
Gain on sale of real estate	(3,124,307)	0
Changes in operating assets and liabilities:		
Increase in assets:		
Land development costs	(552,451)	(64,020)
Accounts receivable	(73,259)	(72,691)
Prepaid expenses and other assets	(187,194)	(37,248)
Prepaid pension costs	(186,473)	0
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(183,590)	(327,364)
Tenant security deposits	(15,512)	6,827
	-----	-----
Total adjustments	(2,760,052)	(329,842)
	-----	-----
Net cash used in operating activities	(833,385)	(201,436)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of real estate	2,523,625	0
Proceeds from sales of equipment	0	6,500
Acquisition of property, plant and equipment	(20,414)	(57,086)
	-----	-----
Net cash provided by (used in) investment activities	2,503,211	(50,586)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of loans payable	(31,207)	(26,304)
Proceeds from exercise of stock options	5,364	0
	-----	-----
Net cash used in financing activities	(25,843)	(26,304)
	-----	-----
Net increase (decrease) in cash and cash equivalents	1,643,983	(278,326)
Cash and cash equivalents at beginning of period	1,105,790	2,688,838
	-----	-----
Cash and cash equivalents at end of period	\$ 2,749,773	\$ 2,410,512
	=====	=====
SUPPLEMENTAL SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES:		
Mortgage receivable	\$ 1,800,000	\$ 0
	=====	=====
Deferred gain on sale of real estate	\$ 1,573,899	\$ 0
	=====	=====

See notes to consolidated financial statements

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## FOOTNOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of Quarterly Presentations:

The accompanying quarterly financial statements have been prepared in conformity with generally accepted accounting principles. The financial statements of the Registrant included herein have been prepared by the Registrant pursuant to the rules and regulations of the Securities and Exchange Commission and, in the opinion of management, reflect all adjustments which are necessary to present fairly the results for the three and six month periods ended October 31, 2002, and 2001.

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

This report should be read in conjunction with the financial statements and footnotes therein included in the audited annual report on Form 10-KSB as of April 30, 2002.

The results of operations for the three and six month periods ended October 31, 2002, and 2001 are not necessarily indicative of the results to be expected for the full year.

### 2. Principle of Consolidation:

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

### 3. Earnings Per Share:

Basic earnings per common share is computed by dividing the net income by the weighted average number of shares of common stock outstanding during the period. Dilutive earnings per share give effect to stock options and warrants which are considered to be dilutive common stock equivalents. Treasury shares have been excluded from the weighted average number of shares.

The following is a reconciliation of the weighted average shares:

	Six months ended October 31,		Three Months Ended October 31,	
	2002	2001	2002	2001
Basic	1,112,149	1,118,311	1,112,402	1,118,311
Effect of dilutive securities	14,086	12,165	12,840	11,622
	-----	-----	-----	-----
Diluted	1,126,235	1,130,476	1,125,242	1,129,933
	=====	=====	=====	=====

### 4. Income Taxes:

Deferred tax assets and liabilities are determined based on differences between

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

### 5. Sale of Real Estate

On August 8, 2002, the Company sold approximately twelve acres of property and certain buildings to an existing tenant. The contract of sale amounted to approximately \$5.4 million under which the Company received a cash payment of approximately \$3.6 million and a three year mortgage for \$1.8 million with interest at 5%. The profit on the sale of the land and buildings was \$4.7 million. Pursuant to Statement of Financial Accounting Standards No. 66, approximately \$1.6 million of the gain on this sale has been deferred as of October 31, 2002. The deferred gain will be recognized upon collection of the mortgage receivable.

### 6. Reclassification:

The prior year to date results from the Consolidated Statements of Income reflect a reclassification of tenant late charges from rental property expenses to revenue from rental property.

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

(a) Not Applicable

(b) MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results for the second quarter ending October 31, 2002 reflect net income of \$1,876,008 compared to \$48,671 for the same period last year. This significant increase is due to recognition of a \$3.1 million gain from the sale of approximately 12 acres of land and buildings to an existing tenant.

Net income for the six months ending October 31, 2002 amounted to \$1,926,667 compared to \$128,406 for the same period last year.

Diluted per share earnings amounted to \$1.67 and \$1.71 for the current three and six month periods compared to \$0.04 and \$0.11 for the like periods last year.

Reversing the established trend of improved earnings from rental property operations, revenues declined to \$557,596 for the three month period and \$1,222,763 for the six months then ended. This compares to \$672,286 and \$1,327,578 for the prior year periods, respectively. For the most part, the decrease is directly attributable to the loss of rental income brought about by the above cited sale. Additionally, a major tenant on the Flowerfield property reduced the amount of square footage it required. In combination, these events impacted revenues by \$114,690 and \$104,815 for the three and six month reporting periods, respectively.

Rental property expenses, which continue to reflect reductions, amounted to \$219,815 compared to \$282,137 for the three month period, a decrease of \$62,322. Contributing factors include reduced salaries and benefits of \$21,298, building and equipment maintenance totaling \$17,096, and a decrease in depreciation expense and real estate taxes, associated with the above referenced sale, totaling \$7,818 and \$15,759, respectively. Expenses for the six month period amounted to \$456,170 and also compare favorably to the \$588,569 posting for the prior year. This decrease of \$132,399 also reflects reductions in salaries and

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benefits of \$30,023, building and equipment maintenance of \$19,761, and a decrease in depreciation and real estate taxes of \$7,915 and \$7,616, respectively. Additionally, as reported in an earlier filing, the Company negotiated a settlement on utility charges and received a nonrecurring credit of \$64,968.

As a result, income from rental property declined for the three month period by \$52,368 and amounted to \$337,381 for the current quarter compared to \$390,149 during the prior year. For the six months ending October 31, 2002, income from rental property totaled \$766,593, \$27,584 above last years result of \$739,009.

General and administrative expenses amounted to \$362,903 for the quarter ending October 31, 2002 compared to \$321,782 for the same period last year. This increase of \$41,121 included several contributing factors. Salaries and benefits, which included stock option expenses of \$54,331, increased by \$63,869, corporate governance expenses increased \$17,748 and ongoing increases in pension fund expenses impacted the quarterly results by \$56,243. Expenses declined for legal, consulting and outside services by \$59,661 as did directors fees by \$8,896. Additionally, our provision for doubtful accounts decreased by \$39,500 for the three month period. A number of other smaller items accounted for the remainder of the variance.

For the six month period ending October 31, 2002, general and administrative expenses increased by \$151,989 and totaled \$709,178 compared to \$557,189 for the same period last year. Mirroring the major contributing factors of the quarterly results, salaries and benefits increased \$61,390 over the prior year period, corporate governance increased by \$43,749 and pension costs increased by \$112,486. Expenses attributable to legal, consulting and outside services declined by \$63,505 and directors fees were \$16,599 below last year.

Reflecting the foregoing, the Company experienced a loss from operations for the three month period of \$25,122 as compared to income of \$68,367 for the same quarter last year. For the six months ending October 31, 2002, income from operations amounts to \$57,415 compared to \$181,820 the prior year.

Including the \$3.1 million from the sale of certain properties mentioned earlier, other income for the quarter amounted to \$3,151,803 compared to \$21,085 last year. Six month comparisons are similar and amount to \$3,153,697 and \$40,523 as of October 31, 2002 and 2001, respectively.

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As of October 31, 2002, the Company had cash and cash equivalents totaling \$2,749,773 and anticipates having the capacity to fund normal operating and administrative expenses and its regular debt service requirements. At statement date, working capital amounted to \$2,541,716. For the three month period ending October 31, 2002, capitalized expenses related to the development of a golf course community totaled \$230,361.

In connection with the sale of approximately 12 acres of land and buildings to an existing tenant, the Company holds a mortgage for \$1.8 million with an interest rate of 5%. The mortgage interest payments will be received on a quarterly basis over the next three years. The principal balance of \$1.8 million will be received at the end of the three years.

The results of operations for both the three and six month periods ending October 31, 2002, are not necessarily indicative of , nor should they be used to project, full year or future results.

With regard to the previously announced plan to develop a world class golf



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course community on the Flowerfield property, the Company filed initial municipal applications to secure the required entitlements in the latter part of October, 2002.

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

Part II Other Information

Items 1 through 5 are not applicable to the August 1, 2002, through October 31, 2002, period.

Item 6 Exhibits and Reports on Form 8-K

(a) Exhibits Required: Exhibit 99.3 CEO/CFO Certification Pursuant to 18 USC, Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K - None were filed by the Company for the second quarter of FY 2003.

SIGNATURES

Pursuant to the requirements 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.  
(Registrant)

Date: December 10, 2002

/S/ Stephen V. Maroney  
-----

Stephen V. Maroney  
President, Chief Executive Officer and  
Treasurer

Date: December 10, 2002

/S/ Frank D'Alessandro  
-----

Frank D'Alessandro  
Controller

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CERTIFICATION

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I, Stephen V. Maroney, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Gyrodyne Company of America, Inc. (the "Company");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's certifying officer is responsible for establishing and maintaining disclosure controls and procedures ( as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. Based on the most recent evaluation, the registrant's certifying officer is also responsible to disclose, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. I have indicated in this quarterly report if there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of the most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 10, 2002

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

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