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GYRODYNE CO OF AMERICA INC  
Form 10QSB  
December 09, 2005

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

Form 10-QSB

(Mark One)

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

For the quarterly period ended OCTOBER 31, 2005  
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TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

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

Commission file number 0-1684  
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Gyrodyne Company of America, Inc.  
-----

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

New York

11-1688021  
-----

-----  
(State or other jurisdiction of  
incorporation or organization)

(IRS Employer Identification No.)

102 Flowerfield, St. James, N.Y. 11780  
-----

(Address of principal executive offices)

(631) 584-5400  
-----

(Issuer's telephone number)

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 1,230,767 shares of common stock, par value \$1.00 per share, as of October 31, 2005

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

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QUARTER ENDED OCTOBER 31, 2005

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Part I Financial Information  
Item I Financial Statements

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

ASSETS  
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October 31,  
2005  
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REAL ESTATE	
Rental property:	
Land	\$ 4,250
Building and improvements	3,955,011
Machinery and equipment	146,842
	-----
	4,106,103
Less accumulated depreciation	3,434,453
	-----
	671,650
	-----
Land held for development:	
Land	792,201
Land development costs	4,651,417
	-----
	5,443,618
	-----
Total real estate, net	6,115,268
CASH AND CASH EQUIVALENTS	1,904,645
RENT RECEIVABLE, net of allowance for doubtful accounts of \$42,813	93,695
PREPAID EXPENSES AND OTHER ASSETS	204,355
PREPAID PENSION COSTS	1,191,511
	-----
Total Assets	\$ 9,509,474
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
-----	
LIABILITIES:	
Accounts payable and accrued expenses	\$ 286,577
Tenant security deposits payable	218,523
Income taxes payable	231,405
Deferred income taxes	1,605,000
	-----
Total liabilities	2,341,505
	-----
STOCKHOLDERS' EQUITY:	
Common stock, \$1 par value; authorized 4,000,000 shares; 1,531,086 shares issued	1,531,086
Additional paid-in capital	7,995,182
Deficit	(480,714)
	-----
	9,045,554
Less the cost of 300,319 shares of common stock held in the treasury	(1,877,585)
	-----
Total stockholders' equity	7,167,969
	-----
Total liabilities and stockholders' equity	\$ 9,509,474
	=====

See notes to consolidated financial statements

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GYRODYNE COMPANY OF AMERICA, INC.

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## AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Six Months Ended October 31,		Three Months Ended October 31,	
	2005	2004	2005	2004
REVENUE FROM RENTAL PROPERTY	\$ 980,700	\$ 1,027,544	\$ 486,166	\$ 527,6
RENTAL PROPERTY EXPENSES:				
Real estate taxes	80,909	75,234	40,455	37,6
Operating and maintenance	181,501	321,380	92,573	171,6
Interest expense	0	18,993	0	9,9
Depreciation	37,371	36,116	18,685	18,0
TOTAL RENTAL PROPERTY EXPENSES	299,781	451,723	151,713	237,2
INCOME FROM RENTAL PROPERTY	680,919	575,821	334,453	290,3
GENERAL AND ADMINISTRATIVE EXPENSES	869,908	777,307	429,776	376,3
LOSS FROM OPERATIONS	(188,989)	(201,486)	(95,323)	(85,9
OTHER INCOME:				
Gain on sale of real estate	1,136,705	0	874,388	
Interest income	30,881	54,120	13,369	26,5
TOTAL OTHER INCOME	1,167,586	54,120	887,757	26,5
INCOME (LOSS) BEFORE INCOME TAXES	978,597	(147,366)	792,434	(59,3
PROVISION (BENEFIT) FOR INCOME TAXES	391,439	(58,946)	316,973	(23,7
NET INCOME (LOSS)	\$ 587,158	\$ (88,420)	\$ 475,461	\$ (35,6
NET INCOME (LOSS) PER COMMON SHARE:				
Basic	\$ 0.48	\$ (0.08)	\$ 0.39	\$ (0.
Diluted	\$ 0.46	\$ (0.08)	\$ 0.37	\$ (0.
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	1,224,243	1,163,144	1,230,761	1,170,4
Diluted	1,270,968	1,163,144	1,278,290	1,170,4

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,	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 587,158	\$ (88,420)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	59,202	57,231
Bad debt expense	12,000	6,000
Deferred income tax benefit	0	(58,946)
Pension expense	58,015	112,194
Gain on sale of real estate	(1,136,705)	0
Changes in operating assets and liabilities:		
Increase in assets:		
Land development costs	(218,651)	(483,674)
Accounts receivable	(43,386)	(109,611)
Prepaid expenses and other assets	(43,065)	(48,855)
Prepaid pension costs	(50,000)	0
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	66,355	(45,258)
Income taxes payable	231,405	(28,306)
Tenant security deposits	(10,761)	7,204
Total adjustments	(1,075,591)	(592,021)
Net cash used in operating activities	(488,433)	(680,441)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property, plant and equipment	0	(13,394)
Proceeds from mortgage receivable	1,300,000	0
Net cash provided by (used in) investment activities	1,300,000	(13,394)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of loans payable	(3,705)	(5,486)
Proceeds from exercise of stock options	252,378	141,704
Net cash provided by financing activities	248,673	136,218
Net increase (decrease) in cash and cash equivalents	1,060,240	(557,617)
Cash and cash equivalents at beginning of period	844,405	1,562,643

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Cash and cash equivalents at end of period	\$ 1,904,645	\$ 1,005,026
	=====	=====

See notes to consolidated financial statements

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### FOOTNOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Basis of Quarterly Presentations:

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

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

This report should be read in conjunction with the audited financial statements and footnotes therein included in the Annual Report on Form 10-KSB for the fiscal year ended April 30, 2005.

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

#### 2. Principle of Consolidation:

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

#### 3. Earnings Per Share:

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

The following is a reconciliation of the weighted average shares:

	Six months ended October 31,		Three Months Ended October 31,	
	2005	2004	2005	2004
Basic	1,224,243	1,163,144	1,230,761	1,170,451
Effect of dilutive securities	46,725	0	47,529	0
Diluted	1,270,968	1,163,144	1,278,290	1,170,451

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#### 4. Condemnation Proceedings:

On November 2, 2005, the State University of New York at Stony Brook (the "University") filed the necessary maps with the Suffolk County Clerk's Office and vested title in approximately 245 acres of our Flowerfield property in Stony Brook / Saint James, N.Y. property. This action was taken by the University pursuant to the Eminent Domain Procedural Law (EDPL) which governs condemnation authority in the State of New York. Earlier actions by the University included an Advance Payment Notice which proposed to acquire the subject acreage for a total purchase price of \$26.3 million. The Company rejected that proposal since it did not represent the current value of the property and filed notice that it will pursue additional compensation in the New York State Court of Claims where valuation disputes are settled. Payment of the \$26.3 million amount, which the Company has elected under the EDPL to accept as an advance payment, is due and payable to the Company within a reasonable and practical timeframe and any additional award from the Court of Claims bears interest at the current rate of 9% simple interest from the date of the taking. The estimated gain resulting from the condemnation of the property, based upon the advance payment of \$26.3 million, is approximately \$21.3 million. The rental revenue lost from tenants who occupied a portion of the condemned property is approximately \$52,000 a month.

According to Section 1033 of the Internal Revenue Code, if the Company were to replace 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 the close of the current fiscal year, the Company may defer the recognition of the gain and defer paying tax until the newly acquired

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property is disposed of. Whether any taxable income is recognized, for tax purposes, depends on whether the Company uses the proceeds to purchase replacement property. Management is currently considering the tax implications of the condemnation. As a result of the condemnation of the Flowerfield property, the Company may owe a termination fee to DPMG Inc., dba Landmark National, related to a contractual agreement to design and build a golf course as part of the proposed residential community at Flowerfield.

#### 5. Income Taxes:

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

#### 6. Revolving Credit Note:

The Company has \$1,750,000 available under a revolving credit line with a bank, bearing interest at a rate of prime plus one percent which was 7.75% at October 31, 2005. The line is secured by certain real estate and expires on June 1, 2006.

#### 7. Reclassifications:

Certain reclassifications have been made to the consolidated financial statements for the three and six months ended October 31, 2004 to conform to the classification used in the current fiscal year.

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### 8. Stock Options:

We have elected the disclosure only provisions of Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") in accounting for our employee stock options. Accordingly, no compensation expense has been recognized. Had the Company recorded compensation expense for the stock options based on the fair value at the grant date for awards in the three and six months ended October 31, 2005 and 2004 consistent with the provisions of SFAS 123, the net effect on net income (loss) and net income (loss) per share would not have been material.

### 9. Retirement Plans:

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

	Six Months Ended October 31,		Three Months Ended October 31,	
	2005	2004	2005	
Pension Benefits				
Service Cost	\$ 69,213	\$ 64,984	\$ 34,607	\$
Interest Cost	62,638	64,580	31,319	
Expected Return on Plan Assets	(114,112)	(82,916)	(57,056)	(
Amortization of Prior-Service Cost	36,369	35,508	18,185	
Amortization of Net Loss	3,907	30,038	1,953	
	-----	-----	-----	-----
Net Periodic Benefit Cost After Curtailments and Settlements	\$ 58,015	\$ 112,194	\$ 29,008	\$
	=====	=====	=====	=====

During the six months ended October 31, 2005, the Company made a \$50,000 contribution to the plan. The Company has no minimum required contribution for the April 30, 2006 plan year.

### 10. Recent Accounting Pronouncements:

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



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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 (the "Exchange Act") both as amended, which can be identified by the use of forward-looking terminology such as "may," "will," "anticipates," "expects," "projects," "estimates," "believes," "seeks," "could," "should," or "continue," the negative thereof, other variations or comparable terminology. Important factors, including certain risks and uncertainties with respect to such forward-looking statements, that could cause actual results to differ materially from those reflected in such forward looking statements include, but are not limited to, the effect of economic and business conditions, including risk inherent in the Long Island, New York and Palm Beach County, Florida real estate markets, the ability to obtain additional capital in order to develop our existing real estate and other risks detailed from time to time in our SEC reports. We assume no obligation to update the information in this Form 10-QSB.

### Critical Accounting Policies

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

### Revenue Recognition

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

### Real Estate

-----

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

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

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twenty years for machinery and equipment.

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

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

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

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### Long Lived Assets

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

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

### Stock-Based Compensation

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

### Condemnation Proceedings

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Subsequent to the close of business for this reporting period, on November 2,

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2005, the State University of New York at Stony Brook (the "University") filed the necessary maps with the Suffolk County Clerk's Office and vested title in approximately 245 acres of our Flowerfield property in Stony Brook / Saint James, N.Y. property. This action was taken by the University pursuant to the Eminent Domain Procedural Law (EDPL) which governs condemnation authority in the State of New York. Earlier actions by the University included an Advance Payment Notice which proposed to acquire the subject acreage for a total purchase price of \$26.3 million. The Company rejected that proposal since it did not represent the current value of the property and filed notice that it will pursue additional compensation in the New York State Court of Claims where valuation disputes are settled. Payment of the \$26.3 million amount, which the Company has elected under the EDPL to accept as an advance payment, is due and payable to the Company within a reasonable and practical timeframe and any additional award from the Court of Claims bears interest at the current rate of 9% simple interest from the date of the taking, November 2, 2005. As we have reported in earlier discussions on the potential condemnation of all or some of the Flowerfield acreage, the Court of Claims, among other things, reviews the highest and best use of the property and the probability that the highest and best use could have been achieved. Although we cannot predict the outcome of our action in the Court of Claims or the potential that the University or the State of New York will attempt to negotiate a settlement, we are confident that the Company can present a credible case for additional compensation for the condemned property.

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

The Company is reporting net income of \$475,461 for the quarter ending October 31, 2005 compared to a net loss of \$35,634 for the same period last year and net income of \$587,158 for the six month period then ended compared to a net loss of \$88,420 in the prior year.

Diluted per share earnings for the current three and six month periods amounted to \$0.37 and \$0.46, respectively compared to losses per share of (\$0.03) and (\$0.08) for the same periods last year, respectively.

Revenue from rental property which totaled \$486,166 for the quarter reflected a decline of \$41,456 when compared to the same period last year when revenue amounted to \$527,622. This decline is attributable to the termination of four leases partially offset by an equal number but smaller new tenancies. For the six months ending October 31, 2005, rental revenues totaled \$980,700, a decrease of \$46,844 to the \$1,027,544 posted during the same period last year. Once again, the decline is primarily attributable to the aforementioned new and terminated tenancies.

Rental property expenses for the current three and six month periods reflect decreases when compared to the prior year results. For the quarter ending October 31, 2005, expenses amounted to \$151,713, an \$85,528 (36%) decline from the \$237,241 recorded last year. Major contributing factors include decreases of \$24,516 in salary and benefits, \$27,475 in maintenance on building and grounds and \$25,957 attributable to a reduction in insurance premiums and reimbursements from tenants. Additionally interest expense was reduced by \$9,941 as a result of

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our paying down the balance on our revolving credit facility. The decrease in salaries and benefits is the result of staff reductions which took place towards the end of our last fiscal year. Likewise, expenses for the six month reporting period amounted to \$299,781 which was \$151,942, or 34%, below the \$451,723 for the same period during the prior year. For the six months ending October 31,

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2005, salaries and benefits decreased by \$35,244, utilities declined by \$4,505, and maintenance on building and grounds decreased by \$29,560. Insurance premiums for the reporting period declined by \$72,138 and reflect both a reduction in premiums and reimbursement from tenants pursuant to our rental agreements. As in the quarterly results, interest expense decreased by \$18,993 due to the pay down on the Company's credit facility. Offsetting these favorable impacts to the rental property operation, real estate taxes increased by \$5,675, equipment maintenance increased by \$10,532, and fees for outside services increased by \$6,348.

As a result of the foregoing, income from rental property increased for both the three and six month reporting periods. For the quarter, income amounted to \$334,453, representing a 15% increase of \$44,072 over the \$290,381 results for the same period last year. For the six months ending October 31, 2005, income from rental property increased by \$105,098, or 18%, totaling \$680,919 compared to \$575,821 during the prior year.

General and administrative expenses increased for both the three and six month periods amounting to \$429,776 and \$869,908, respectively. The three month results are \$53,448 (14%) over the prior year expenses of \$376,328 and the six month results are \$92,601 (12%) over the \$777,307 recorded last year. The quarterly results were impacted by increases in salaries and benefits of \$5,856, legal and consulting fees of \$19,996, corporate governance issues of \$41,086, insurance premium increases of \$8,971 and directors fees of \$7,285. Costs associated with the Company's pension plan were reduced by \$27,950 during the same period. The six months ending October 31, 2005, expenses were impacted by similar increases of \$10,225 in salaries and benefits, \$22,016 in legal and consulting fees, \$66,773 in corporate governance issues, and \$11,765 in directors fees. Additionally, there were increases of \$17,944 in insurance premiums, \$5,113 in computer technology updates, \$8,138 in expenses related to attending meetings at the Callery-Judge Grove and for other professional seminars connected to the pending condemnation at Flowerfield, and \$4,736 in fees associated with outside services. Pension expense decreased by \$54,179 for the six month period. The increase in corporate governance expense in both periods is primarily related to the engagement of investment bankers to explore strategic alternatives for the Company.

As a result, the Company is reporting a loss from operations of \$95,323 for the three months ending October 31, 2005, compared to a loss of \$85,947 during the prior year. For the six month period, the Company experienced a loss from operations of \$188,989 compared to a loss of \$201,486 for the same period last year.

Interest income declined in both reporting periods as a direct result of the payment in full of a \$1.8 million mortgage receivable which matured in August; income was reduced by \$21,528 and \$29,541 for the quarter and six months ending October 31, 2005, respectively. Income from interest bearing deposits increased by \$8,338 and \$6,302, respectively, for the quarter and six month periods.

Reflecting the receipt of the mortgage proceeds, the Company is recognizing a gain on the sale of real estate of \$874,388 and \$1,136,705 for the three and six month periods ending October 31, 2005, respectively.

Based on the foregoing, the Company is reporting income before taxes totaling \$792,434 for the current quarter compared to a loss before taxes of \$59,389 for the same period last year. For the current six month period, the Company is reporting income before taxes totaling \$978,597 compared to a loss before taxes of \$147,366 during the previous year.

### LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was \$488,433 and \$680,441 during the six

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months ended October 31, 2005 and 2004, respectively. The principal use of cash in the current period was primarily related to land development costs. The primary use of cash in the prior year were funds used in connection with planning and pre-construction costs associated with land development plans for the golf course community. The Company also incurred costs included in the capitalized land development costs pertaining to legal, and communication costs to shareholders and the community regarding the potential condemnation of the Company's real estate property by Stony Brook University.

Net cash provided by (used in) investing activities was \$1,300,000 and \$(13,394) during the six months ended October 31, 2005 and 2004, respectively. The cash provided by investing activities in the current period represents payment in full of the Company's mortgage receivable while the use of cash in the prior period was for capital expenditures.

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Net cash provided by financing activities was \$248,673 and \$136,218 during the six months ended October 31, 2005 and 2004, respectively. The net cash provided during both periods was primarily the result of proceeds from the exercise of stock options. The Company has a \$1,750,000 revolving credit line with a bank, bearing interest at a rate of prime plus one percent which was 7.75% at October 31, 2005. The unused portion of the credit line, which is the total line of \$1,750,000, will enhance the Company's financial position and liquidity and is available, if needed, to fund any unforeseen expenses.

As of October 31, 2005, the Company had cash and cash equivalents of \$1,904,645 and anticipates having the capacity to fund normal operating and administrative expenses and its regular debt service requirements. To date, expenses associated with the development of the Flowerfield property, which have been capitalized, total \$4,651,417. As of October 31, 2005, the portion of those expenses attributable to the residential golf course community amount to \$2,376,083. Working capital, which is the total of current assets less current liabilities as shown in the accompanying chart, amounted to \$1,425,079 at October 31, 2005. In the subsequent quarter, as a result of the condemnation of the Company's Flowerfield property by the State University of New York at Stony Brook, the Company will record a receivable of \$26.3 million and write off costs attributable to the residential golf course community and the majority of other land development costs.

	October 31,	
	2005	2004
Current assets:		
Cash and cash equivalents	\$1,904,645	\$1,005,026
Rent receivable, net	93,695	196,693
Mortgage receivable	0	1,800,000
Net prepaid expenses and other assets	163,244	174,025
	2,161,584	3,175,744
Current liabilities:		
Accounts payable and accrued expenses	286,577	187,551
Tenant security deposits payable	218,523	202,180
Income taxes payable	231,405	0
Current portion of loans payable	0	7,411
	736,505	397,142

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Working capital	\$1,425,079	\$2,778,602
	=====	=====

## LIMITED PARTNERSHIP INVESTMENT

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

### (c) OFF-BALANCE SHEET ARRANGEMENTS

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

## Item 3 CONTROLS AND PROCEDURES

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of October 31, 2005. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer has concluded that the disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. It should be noted that design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions regardless of how remote.

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

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## Part II Other Information

Items 1 through 5 are not applicable to the three months ended October 31, 2005.

### Item 6 Exhibits

- 3.1 Restated Certificate of Incorporation of Gyrodyne Company of America, Inc. incorporated herein by reference to the Annual Report on Form 10-KSB/A filed with the Securities and Exchange Commission on September 5, 2001.
- 3.2 Restated By-laws of Gyrodyne Company of America, Inc. incorporated

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herein by reference to the Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on July 5, 2005.

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

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

### SIGNATURES

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

GYRODYNE COMPANY OF AMERICA, INC.

Date: December 09, 2005

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

Date: December 09, 2005

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

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