GYRODYNE CO OF AMERICA INC
Form 10-Q
May 12, 2014

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission file number **0-1684**

Gyrodyne Company of America, Inc.

(Exact name of registrant as specified in its charter)

New York	11-1688021
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 Flowerfield, Suite 24, St. James, NY 11780

(Address and Zip Code of principal executive offices)

(631) 584-5400

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes_X__ No___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

On May 12, 2014, 1,482,680 shares of the Registrant's common stock, par value $1.00 per share, were outstanding.

INDEX TO QUARTERLY REPORT OF GYRODYNE COMPANY OF AMERICA, INC.

QUARTER ENDED MARCH 31, 2014

	Seq. Page
Form 10-Q Cover	1
Index to Form 10-Q	2
PART I - FINANCIAL INFORMATION	3
Item 1. Financial Statements.	3
Condensed Consolidated Balance Sheets as of March 31, 2014 (unaudited) and December 31, 2013	3
Condensed Consolidated Statements of Operations for the three months ended March 31, 2014 and 2013 (unaudited)	4
Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2014 and 2013 (unaudited)	5
Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013 (unaudited)	6
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	17
Item 3. Quantitative and Qualitative Disclosures About Market Risk.	33
Item 4. Controls and Procedures.	33
PART II - OTHER INFORMATION	33
Item 1. Legal Proceedings.	33
Item 6. Exhibits.	34
SIGNATURES	35
EXHIBIT INDEX	35

2

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

GYRODYNE COMPANY OF AMERICA, INC.

AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2014 (Unaudited)	December 31, 2013
REAL ESTATE		
Rental property:		
Land	$4,621,293	$4,621,293
Building and improvements	32,864,821	32,626,185
Machinery and equipment	344,733	344,733
	37,830,847	37,592,211
Less accumulated depreciation	7,475,739	7,234,846
	30,355,108	30,357,365
Land held for development:		
Land	558,466	558,466
Land development costs	1,862,048	1,823,847
	2,420,514	2,382,313
Total real estate, net	32,775,622	32,739,678
Cash and cash equivalents	8,481,571	13,048,827
Investment in marketable securities	3,301,875	3,380,864
Rent receivable, net of allowance for doubtful accounts of approximately $76,000 and $74,000, respectively	205,547	95,829
Deferred rent receivable	216,123	215,709
Prepaid expenses and other assets	838,236	892,074
Prepaid pension costs	601,338	608,807
Total Assets	$46,420,312	$50,981,788
LIABILITIES AND EQUITY		
LIABILITIES:		
Accounts payable	$630,277	$1,710,257
Accrued liabilities	392,998	3,246,403
Deferred rent liability	101,225	93,922
Tenant security deposits payable	480,392	474,111
Deferred income taxes	1,315,000	1,315,000

Dividend note payable	16,144,614	16,144,614
Total Liabilities	19,064,506	22,984,307
Commitments and contingencies		
EQUITY:		
Common stock, $1 par value; authorized 4,000,000 shares; 1,723,888 shares issued; 1,482,680 shares outstanding	1,723,888	1,723,888
Additional paid-in capital	17,753,505	17,753,505
Accumulated other comprehensive loss	148,772	118,789
Deficit retained earnings	(9,107,399)	(9,119,471)
	10,518,766	10,476,711
Less cost of shares of common stock held in treasury; 241,208	(1,537,697)	(1,537,697)
Total Gyrodyne Stockholders' Equity	8,981,069	8,939,014
Non-controlling interest in GSD, LLC	18,374,737	19,058,467
Total equity	27,355,806	27,997,481
Total Liabilities and Equity	$46,420,312	$50,981,788

See notes to condensed consolidated financial statements

GYRODYNE COMPANY OF AMERICA, INC.

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended	
	March 31,	
	2014	2013
Revenues		
Rental income	$1,120,645	$1,099,584
Rental income - tenant reimbursements	179,390	189,640
Total	1,300,035	1,289,224
Expenses		
Rental expenses	711,602	662,670
General and administrative expenses	570,750	985,852
Strategic alternative expenses	337,742	341,361
Depreciation	240,893	232,353
Total	1,860,987	2,222,236
Other Income (Expense):		
Interest income	23,832	58,381
Interest expense	(134,538)	(5,786)
Total	(110,706)	52,595
Net Loss before Condemnation Expense and Provision for Income Taxes	(671,658)	(880,417)
Expense on Condemnation	-	(2,360)
Net Loss	$(671,658)	$(882,777)
Net Loss from Non-Controlling Interest in GSD, LLC	$(683,730)	$-
Net Income (Loss) Attributable to Gyrodyne	$12,072	$(882,777)
Net income (loss) attributable to Gyrodyne per common share:		
Basic and diluted	$0.01	$(0.60)
Weighted average number of common shares outstanding:		
Basic and diluted	1,482,680	1,482,680

See notes to condensed consolidated financial statements

4

GYRODYNE COMPANY OF AMERICA, INC.

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	Three Months Ended	
	March 31,	
	2014	2013
Net income (loss) attributable to Gyrodyne	$12,072	$(882,777)
Unrealized gain (loss) on investments	29,983	(26,616)
Comprehensive income (loss) attributable to Gyrodyne	42,055	(909,393)
Comprehensive loss attributable to non-controlling interest	(683,730)	-
Comprehensive loss	$(641,675)	$(909,393)

See notes to condensed consolidated financial statements

GYRODYNE COMPANY OF AMERICA, INC.

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended	
	March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(671,658)	$(882,777)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	240,893	273,973
Bad debt expense	2,188	6,000
Net periodic pension benefit cost	7,469	115,652
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Rent receivable	(111,906)	(107,788)
Deferred rent receivable	(414)	5,104
Prepaid expenses and other assets	53,838	(40,509)
(Decrease) increase in liabilities:		
Accounts payable	(1,079,980)	55,601
Accrued liabilities	(2,853,405)	(10,005)
Deferred rent liability	7,303	37,654
Tenant security deposits	6,281	4,397
Total adjustments	(3,727,733)	340,079
Net cash used in operating activities	(4,399,391)	(542,698)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of building improvements and equipment	(238,636)	(98,479)
Land development costs	(38,201)	(26,917)
Principal repayments of investments in marketable securities	108,972	381,347
Net cash (used in) provided by investing activities	(167,865)	255,951
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on mortgage loans payable	-	(5,013,415)
Net cash used in financing activities	-	(5,013,415)
Net decrease in cash and cash equivalents	(4,567,256)	(5,300,162)
Cash and cash equivalents at beginning of period	13,048,827	94,164,722
Cash and cash equivalents at end of period	$8,481,571	$88,864,560

Supplemental cash flow information:

Interest paid	$-	$26,676
Income and excise taxes paid	$133,000	$70,558

See notes to condensed consolidated financial statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The Company:

Gyrodyne Company of America, Inc. ("Gyrodyne" or the "Company") is a self-managed and self-administered real estate investment trust ("REIT") formed under the laws of the State of New York. The Company manages its business as one operating segment. Prior to December 30, 2013, the Company's primary business was the investment in and the acquisition, ownership and management of a geographically diverse portfolio of medical office, industrial and development of industrial and residential properties located in the Northeast region of the United States. On December 30, 2013, the Company distributed to its shareholders, as the non-cash portion of the special dividend announced on September 12, 2013 (the "Special Dividend"), all of the equity interests of its subsidiary Gyrodyne Special Distribution LLC ("GSD"), which owned 100% of the interests in the Company's four real estate properties, subject to related mortgage debt in favor of Flowerfield Mortgage Inc., also a subsidiary of the Company, with the Company having the contractual right to manage the business and properties of GSD. Based on management provisions set forth in GSD's limited liability company agreement which designates sole management authority in the Company, the Company concluded that GSD is a variable interest entity and that GSD's financial statements should be consolidated with the Company's. Accordingly, we may use references to "we" or "our" to refer to the Company and GSD and "the Company's properties" or "GSD's properties" (or derivations thereof) interchangeably in this report. In that connection, however, it should be noted that GSD has legal title to the properties and will incur any operating or capital losses resulting from the properties, due to risks as outlined below or otherwise. However, such losses may adversely impact GSD's ability to meet debt service obligations and or repayments of mortgages to Flowerfield Mortgage, Inc. or payment of management fees or result in capital needs at GSD that might require additional capital from Gyrodyne, or external sources.

Substantially all of GSD's properties are subject to net leases in which the tenant reimburses GSD for a portion, all of or substantially all of the costs and/ or cost increases for utilities, insurance, repairs and maintenance, and real estate taxes. Certain leases provide that GSD is responsible for certain operating expenses.

As of March 31, 2014, the Company has an investment in three separate mortgages, due from GSD, of approximately $13,606,000. The mortgages contain a 5% effective interest rate and both principal and interest are eliminated in consolidation. The mortgages contain a first lien on the medical parks related real estate it previously owned. Additionally, the Company has an estimated 9.32% limited partnership interest in Callery Judge Grove, L.P. (the "Grove") a limited partnership, which in 2013 sold its only property, an underdeveloped Florida property, ("Grove Propery"). For further information see footnote 12.

Following the December 30, 2013 distribution of all of the common membership interests of GSD to the Company's shareholders in the Special Dividend, the Company has been managing GSD pursuant to the terms of GSD's limited liability company agreement which provides that the Company has sole and absolute discretion regarding the

management and affairs of GSD. In its capacity as GSD's managing member, the Company has unilateral authority, without seeking GSD shareholder approval, over the management of the real estate assets, including leasing and sale of its real estate holdings and the execution of any agency and brokerage agreements to facilitate such leases and sales, investing in its real estate holdings through capital improvements and proceeding strategically with seeking to maximize the value of the undeveloped Flowerfield property. Under GSD's limited liability company agreement, the Company is entitled to market-rate compensation for its services as well as reimbursement for any costs and expenses incurred by and properly allocable to GSD. In April 2014, the Company's board of directors approved a full cost mark-up based management fee to be charged to GSD equal to reimbursement of expenses plus a mark-up of 8.5%, which percentage falls in the lower quartile of similar fees charged by comparable companies according to a benchmarking study. Pursuant to the GSD LLC agreement, the Company is obligated to provide an initial liquidity facility to GSD in an amount not to exceed $2.5 million which the Company may determine from time to time. The interest on the debt facilities to GSD is REIT qualified income. The foregoing income earned by the Company for managing GSD is not deemed to be REIT qualified income and therefore is appropriately payable to its taxable REIT subsidiary, Flowerfield Properties, Inc.

The Company, through its managing member control in GSD, with no ownership interest, controls two medical office parks and ten of fourteen buildings in a third medical park, together comprising approximately 131,000 rentable square feet and a multitenant industrial park comprising approximately 130,000 rentable square feet. In addition, the Company, through the same managing member control, maintains approximately 68 acres of property in St. James, New York.

The Company believes it has qualified, and expects to continue to qualify as a REIT under Section 856(c) (1) of the Internal Revenue Code of 1986 as amended (the "Code"). Accordingly, the Company generally will not be subject to federal and state income tax, provided that distributions to its shareholders equal at least 90% of its REIT taxable income as defined under the Code. The Company is permitted to participate in certain activities from which it was previously precluded in order to maintain its qualifications as a REIT However these activities must be conducted in an entity which elected to be treated as a taxable REIT subsidiary ("TRS") under the Code. The Company has one taxable REIT subsidiary which is subject to federal and state income tax on the income from these activities.

The Company conducts its operations either directly or indirectly through (1) property owned subsidiaries and lender subsidiaries, or (2) Flowerfield Properties, Inc. a wholly owned TRS. Property owner subsidiaries are landlords leasing properties in which the Company has a managing member control but no ownership interest, and lender subsidiaries are lenders loaning funds where the Company made an investment in a loan asset, but in all cases these subsidiaries are separate and distinct legal entities. GSD is a property owner subsidiary in which the Company is the sole managing member with managerial authority and investment/disposition authority. Flowerfield Mortgage Inc. ("FMI") is a lender subsidiary wholly owned by the Company with three loan assets secured by property held in the property owner subsidiaries.

On October 21, 2013, the Company filed a preliminary proxy statement with the Securities and Exchange Commission ("SEC") which contains, among other matters, the Board’s recommendation that the shareholders vote in favor of a plan of merger. The Company received comments from the SEC on November 18, 2013. On May 8, 2014, the Company responded to such comments and filed a revised preliminary proxy statement with the SEC. Subject to the completion of the SEC review process, the Company currently expects to file definitive proxy materials with the SEC during the second quarter of 2014 and hold a special meeting of shareholders to vote upon the proposed merger in the third quarter of 2014.

2. 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 Company included herein have been prepared by the Company pursuant to the rules and regulations of the SEC and, in the opinion of management, reflect all adjustments which are necessary to present fairly the results for the three-month periods ended March 31, 2014 and 2013.

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

This report should be read in conjunction with the audited financial statements and footnotes therein included in the Annual Report on Form 10-K for the year ended December 31, 2013 and with the amendment to the preliminary proxy statement/prospectus filed with the SEC on May 8, 2014.

The results of operations for the three-month period ended March 31, 2014 are not necessarily indicative of the results to be expected for the full year.

3. Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of Gyrodyne Company of America, Inc. and all majority owned subsidiaries. The Company consolidates its wholly owned subsidiaries, partnerships and joint ventures which it controls (i) through voting rights or similar rights or (ii) by means other than voting rights if the Company is the primary beneficiary of a variable interest entity ("VIE"). If an investment is determined to be a VIE, the Company performs an analysis to determine if the Company is the primary beneficiary of the VIE. GAAP requires a VIE to be consolidated by its primary beneficiary. The primary beneficiary is the party that has a controlling financial interest in an entity. In order for a party to have a controlling financial interest in an entity, it must have (1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits of an entity that could potentially be significant to the VIE.

The Company's consolidated VIE, GSD, was determined to be a VIE primarily because the Company has the power to direct the activities of the VIE that most significantly impact the entity's economic performance and has the obligation to absorb losses or the right to receive benefits of the entity. The VIE owns all of the real estate that was previously owned by the Company prior to the distribution of ownership interests in GSD. The VIE holds mortgage obligations payable to a wholly owned subsidiary of the Company of $13,606,486 and $13,840,889 as of March 31, 2014 and December 31, 2013, respectively. As previously discussed in the Company's 2013 Annual Report filed on Form 10-K, the estimated fair value of the real estate net of its mortgage obligations and other direct liabilities was $30,685,000 on December 31, 2013. At March 31, 2014 and December 31, 2013, the net book value of GSD is approximately $18,375,000 and $19,058,000, respectively. The VIE is essentially being managed and operated by the Company where the Company is the primary obligor for liabilities incurred on behalf of the VIE. As a result, the Company could be held liable for current and future obligations of the VIE, and in turn it would be the Company’s obligation to seek reimbursement from the VIE.

Investments in affiliates in which the Company has the ability to exercise significant influence, but not control, are accounted for under the equity method. The Company did not have any such investments at March 31, 2014. Investment interests in excess of 5% in limited partnerships are accounted for under the equity method. All consolidated subsidiaries are wholly owned. All intercompany balances and transactions have been eliminated. There were no investments accounted for under the equity method as of March 31, 2014.

Management Services Arrangements

Under GSD's Amended and Restated Limited Liability Company Agreement, Gyrodyne, in its capacity as managing member of GSD, is entitled to market-rate compensation for its services as well as reimbursement for any costs and expenses incurred by and properly allocable to GSD. Gyrodyne also is obligated to provide an initial liquidity facility to GSD in an amount not to exceed $2.5 million, which Gyrodyne may determine from time to time.

Taking into account a number of factors, including a management services benchmarking study commissioned by Gyrodyne, our board intends to implement a management services arrangement under which GSD will pay certain fees to or reimburse Gyrodyne as follows:

GSD will reimburse Gyrodyne for 85% of Gyrodyne's General and Administrative (G&A) Expenses and pay a fee to Gyrodyne equal to 8.5% of such reimbursed amount; plus

GSD will reimburse Gyrodyne for all rental expenses, whether value added (such as contractor and payroll expenses) or non-value added (such as utilities and taxes) paid by Gyrodyne in respect of the Contributed Properties; plus

GSD will pay a fee to Gyrodyne equal to 8.5% of all value added rental expenses paid by Gyrodyne in respect of the Contributed Properties, but no fee will be payable in respect of non-value added rental expenses; plus

GSD will reimburse 100% (without mark-up) of any bonuses (under the Bonus Plan (See "*Interests of Our Directors and Executive Officers—Bonus Plan*") or otherwise) paid by Gyrodyne to its employees and directors and related payroll taxes on account of any sales of the Contributed Properties; plus

Gyrodyne will be entitled to interest at the rate of 5.0% per annum on any funds advanced by Gyrodyne pursuant to the liquidity facility made available to GSD.

The foregoing management services arrangements are subject to change pending further analysis and completion of documentation of such arrangements and formal adoption by our board. Upon such adoption of definitive documentation with respect to the management services arrangements, Gyrodyne will file a current report on Form 8-K containing disclosure of the terms of such arrangements as so adopted, which disclosure will identify any

modifications of the foregoing.

4. Consolidating Financial Information

Our consolidated assets at March 31, 2014 and December 31, 2013 include total assets of $33,920,904 and $33,730,130, respectively, of a variable interest entity (VIE) that can only be used to settle liabilities of that VIE. These assets include real estate of $32,775,622 and $32,739,678, deferred rent of $216,123 and $215,709, rent receivable of $205,547 and $0, and prepaid and other assets of $723,612 and $774,743, respectively. Our consolidated liabilities at March 31, 2014 and December 31, 2013 include liabilities of a VIE consisting of $480,392 and $474,111, respectively of tenant security deposits, accounts payable of $275,760 and $0, accrued liabilities of $32,341 and $0, and deferred rent liability of $101,225 and $93,922, respectively. The VIE also has mortgages payable to a wholly-owned subsidiary of Gyrodyne of $13,606,486 and $13,840,889, respectively and an outstanding balance in a revolving debt facility of $1,049,963 and $262,741 at March 31, 2014 and December 31, 2013, respectively, that are eliminated in consolidation.

The tables below are the unaudited consolidating March 31, 2014 Balance Sheet and Statement of Operations of Gyrodyne Company of America, Inc. and Subsidiaries, and GSD.

ASSETS	Gyrodyne Company of America, Inc. and Subsidiaries	GSD, LLC	Total	Eliminations	Consolidated
REAL ESTATE					
Rental property:					
Land	$-	$ 4,621,293	$4,621,293	$-	$4,621,293
Building and improvements	-	32,864,821	32,864,821	-	32,864,821
Machinery and equipment	-	344,733	344,733	-	344,733
	-	37,830,847	37,830,847	-	37,830,847
Less accumulated depreciation	-	7,475,739	7,475,739	-	7,475,739
	-	30,355,108	30,355,108	-	30,355,108
Land held for development:					
Land	-	558,466	558,466	-	558,466
Land development costs	-	1,862,048	1,862,048	-	1,862,048
	-	2,420,514	2,420,514	-	2,420,514
Total real estate, net		32,775,622	32,775,622		32,775,622
Cash and cash equivalents	8,481,571	-	8,481,571	-	8,481,571
Investment in marketable securities	3,301,875	-	3,301,875	-	3,301,875
Rent receivable, net of allowance for doubtful accounts of approximately $76,000	-	205,547	205,547	-	205,547
Deferred rent receivable	-	216,123	216,123	-	216,123
GSD Line of Credit	1,049,963	-	1,049,963	(1,049,963)	-
Prepaid expenses and other assets	114,624	723,612	838,236	-	838,236
Prepaid pension costs	601,338	-	601,338	-	601,338
Mortgage receivable	13,606,486	-	13,606,486	(13,606,486)	-
Total Assets	$27,155,857	$ 33,920,904	$61,076,761	$(14,656,449)	$46,420,312
LIABILITIES AND EQUITY					
LIABILITIES:					
Accounts payable	$354,517	$ 275,760	$630,277	$-	$630,277
Accrued liabilities	360,657	32,341	392,998	-	392,998
Deferred rent liability	-	101,225	101,225	-	101,225
Tenant security deposits payable	-	480,392	480,392	-	480,392
GSD Line of Credit	-	1,049,963	1,049,963	(1,049,963)	-
Mortgage Payable	-	13,606,486	13,606,486	(13,606,486)	-
Deferred income taxes	1,315,000	-	1,315,000	-	1,315,000

Dividend note payable	16,144,614	-	16,144,614	-	16,144,614
Total Liabilities	18,174,788	15,546,167	33,720,955	(14,656,449)	19,064,506
Commitments and contingencies					
EQUITY:					
Common stock, $1 par value; authorized 4,000,000 shares; 1,723,888 shares issued; 1,482,680 shares outstanding	1,723,888	-	1,723,888	-	1,723,888
Additional paid-in capital	17,753,505	-	17,753,505	-	17,753,505
Accumulated other comprehensive loss	148,772	-	148,772	-	148,772
Deficit retained earnings	(9,107,399)	(691,731)	(9,799,130)	691,731	(9,107,399)
	10,518,766	(691,731)	9,827,035	691,731	10,518,766
Less cost of shares of common stock held in treasury; 241,208	(1,537,697)	-	(1,537,697)	-	(1,537,697)
Total Gyrodyne Stockholders' Equity	8,981,069	(691,731)	8,289,338	691,731	8,981,069
Non-controlling interest in GSD, LLC	-	19,066,468	19,066,468	(691,731)	18,374,737
Total equity	8,981,069	18,374,737	27,355,806	-	27,355,806
Total Liabilities and Equity	$27,155,857	$ 33,920,904	$61,076,761	$(14,656,449)	$46,420,312

Consolidated Statement of Operations

	Gyrodyne Company of America, Inc	GSD, LLC	Total	Eliminations	Consolidated
Revenues					
Rental income	$-	$1,120,645	$1,120,645	$-	$ 1,120,645
Rental income - tenant reimbursements	-	179,390	179,390	-	179,390
Other income	1,572,698	-	1,572,698	(1,572,698)	-
Total	1,572,698	1,300,035	2,872,733	(1,572,698)	1,300,035
Expenses					
Reimbursable expenses	711,602	-	711,602	(711,602)	-
Rental expenses	-	734,960	734,960	(23,358)	711,602
General and administrative expenses	570,750	526,255	1,097,005	(526,255)	570,750
Strategic alternative expenses	337,742	311,483	649,225	(311,483)	337,742
Depreciation	-	240,893	240,893		240,893
Total	1,620,094	1,813,591	3,433,685	(1,572,698)	1,860,987
Other Income (Expense):					
Interest income	194,006	-	194,006	(170,174)	23,832
Interest expense	(134,538)	(170,174)	(304,712)	170,174	(134,538)
Total	59,468	(170,174)	(110,706)	-	(110,706)
Net Income (Loss)	$12,072	$(683,730)	$(671,658)	$-	$ (671,658)

5. Investment in Marketable Securities:

The Company determines the appropriate classification of securities at the time of purchase and reassesses the appropriateness of such classification at each reporting date. All marketable securities held by the Company have been classified as available-for-sale and, as a result, are stated at fair value, based on a pricing model that incorporates coupon type, prepayment speeds and the type of collateral backing the securities. Unrealized gains and losses on available-for-sale securities are recorded as a separate component of stockholders' equity. Any realized gains and losses on the sale of securities, as determined on a first-in, first-out basis, will be included in the Consolidated Statements of Operations.

The Company reviews its investments on a regular basis to evaluate whether or not each security has experienced an other-than-temporary decline in fair value. If it is believed that an other-than-temporary decline exists, the Company will write down the investment to market value and record the related write-down in the Consolidated Statements of

Operations.

The historical cost and estimated fair value of investments in marketable securities available for sale as of March 31, 2014 and December 31, 2013 are as follows:

	March 31, 2014	December 31, 2013
Amortized cost	$3,337,065	$3,446,037
Gross Unrealized Gains (Losses)	(35,190)	(65,173)
Fair Value*	3,301,875	$3,380,864

*The Company received $108,972 in principal repayments during the three months ended March 31, 2014

The Company’s investment is in conforming agency fixed rate mortgage pass through securities ("mortgage-backed securities)", each of which contained either AA or AAA ratings, the principal of which is fully guaranteed by agencies of the U.S. Government. At March 31, 2014 and December 31, 2013, marketable securities based on amortized cost, reflect a yield of approximately 2%, have contractual maturities of 30 years and an adjusted duration of less than four years. The fair value of mortgage-backed securities was estimated based on a Level 2 methodology, additional details of which are discussed further in Note 12 – Fair Value of Financial Instruments. None of the securities with an unrealized loss at March 31, 2014 is considered to be other-than-temporarily impaired; therefore the unrealized loss was reported in the Consolidated Statement of Comprehensive Income (Loss).

6. Earnings per Share:

Basic earnings per common share are computed by dividing net income (loss), attributable to Gyrodyne, by the weighted average number of shares of common stock outstanding during the period. Diluted 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 Company does not have any outstanding common stock equivalents as of March 31, 2014, and 2013.

	Three Months Ended March 31,	
BASIC	**2014**	**2013**
Net income (loss) attributable to Gyrodyne	$12,072	$(882,777)
Weighted average number of common shares outstanding	1,482,680	1,482,680
Net Income (loss) per common share attributable to Gyrodyne ("EPS")	$0.01	$(.60)

7. Income Taxes:

The Company files a consolidated U.S. Federal Tax Return that includes all 100% owned subsidiaries. State tax returns are filed on a consolidated or separate basis depending on the applicable laws.

Deferred income tax assets and liabilities are determined based on differences between financial reporting and tax basis 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.

Deferred income tax liabilities consist of the following:

March 31, 2014	December 31,

		2013
Deferred Tax Liabilities:		
Unrealized gain on investment in Citrus Grove	$(1,315,000)	$(1,315,000)
Net Deferred Income Taxes	$(1,315,000)	$(1,315,000)

The Company is taxed as a REIT for federal and state income tax purposes under section 856(c)(1) of the Internal Revenue Code (the "Code"). 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.

8. Retirement Plans:

On November 25, 2013 the Company's Board voted to terminate the noncontributory defined benefit pension plan (the "Plan"), subject to regulatory approval, and has begun the process. On February 28, 2014, the Company submitted the necessary application and related documents to the IRS and is expecting to submit documentation to the Pension Benefit Guarantee Corporation ("PBGC") in July 2014. Both the PBGC and the IRS must approve the termination. The Company expects to receive the approval from the PBGC and the IRS in the second half of 2014.

Upon termination of the Plan, non-vested benefits will become fully vested, and the effects of future contribution levels will cease to be an obligation. The Pension plan has an accumulated net unrecognized gain. Any gain (loss) from termination will be added to (netted against) the unrecognized pension gain and recognized in the financial statements.

The Plan contains two options for employees and beneficiaries to choose from upon termination of the Plan Annuity or lump sum. The below pension asset reflects an annuity obligation where assets will exceed the obligations.

The following table provides the components of net periodic pension benefit cost for the Plan for the three months ended March 31, 2014 and 2013 including the required and expected contributions:

Three Months Ended March 31,

	2014	2013
Pension Benefits		
Service Cost	$46,427	$92,763
Interest Cost	45,708	62,909
Expected Return on Plan Assets	(90,310)	(81,547)
Amortization of prior service costs	5,644	5,644
Amortization of Actuarial Loss	-	35,883
Net Periodic Pension Benefit Cost	$7,469	$115,652
After Curtailments and Settlements		
Minimum required contribution	$-	$-
Expected contribution	$-	$-

During the three months ended March 31, 2014 and 2013, the Company did not make any contribution to the Plan. The Company does not have a minimum required contribution for the December 31, 2014 plan year. As a result of the termination of the pension plan, the Company may have to make a contribution of approximately $200,000 to satisfy the lump sum payment options and to purchase annuities.

9. Incentive Compensation Plan:

The Incentive Compensation Plan (the "ICP") provides that payments made in connection with an Excess Dividend (defined in the ICP) may not exceed the hypothetical ICP payments that would have been made had there instead been a Change in Control transaction (defined in the ICP) consummated on the dividend payment date. The ICP payments that would have been made had there been a Change in Control transaction consummated on December 30, 2013, the payment date of the $98,685,000 special dividend, are approximately $5,277,800. The ICP payments actually made in respect of the $68,000,000 cash portion of the special dividend totaled $5,044,600. Consequently, remaining ICP payments to be made in connection with the special dividend when and to the extent that GSD holders receive cash in respect of their GSD interests may not exceed $233,200 ($5,277,800 - $5,044,600).

Employees	Number of Units under Plan	Maximum Benefit relating to the 2013 Non-Cash Dividends
COO	14,850	$ 31,482
Employees	4,400	9,328
Directors	53,900	114,268
Total ICP excluding termed employees and directors	73,150	155,078
Former CEO	20,350	43,142
All other former employees	8,250	17,490
Former director	8,250	17,490
Total former Board members and former employees	36,850	78,122
Total maximum ICP to be paid	110,000	$ 233,200

10. Commitments and Contingencies:

Lease revenue commitments - The approximate 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, are as follows:

Twelve Months Ending March 31,	Amount
2015	$3,902,000
2016	3,103,000
2017	2,353,000
2018	1,843,000
2019	1,581,000
Thereafter	3,241,000
	$16,023,000

Other commitments and contingencies As of March 31, 2014, other commitments and contingencies are summarized in the below table:

Incentive Compensation Plan	$233,200
Employment agreements with bonus and severance commitment contingencies	$600,000
Other employee severance commitment contingencies	$120,000
Total	$953,200

Employment agreements - The Company has compensation arrangements with its Chief Executive Officer and Chief Financial Officer (collectively, the "Agreements"), each executed during the quarter ended June 30, 2013. Each of the Agreements contains a bonus of $125,000 payable upon a change of control as defined in the agreements. In addition, each agreement provides for severance equivalent to 6 months of base salary and the vesting and related payment of the change of control bonus.

The Company also has a compensation arrangement with its Chief Operating Officer executed on May 8, 2014 which provides for severance equivalent to 6 months of base salary.

Under Company policy the aggregate severance commitment contingency to other employees is approximately $120,000.

11. Recent Accounting Pronouncements:

In February 2013, the FASB issued ASU 2013-02, "*Comprehensive Income (Topic 220), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income."* The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of the net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The pronouncement is effective for fiscal years and interim periods ending after December 15, 2012. The adoption of this pronouncement did not have a material effect on the Company’s consolidated financial position or results of operations.

In July 2013, the FASB issued ASU 2013-11, "*Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists".* ASU 2013-11 amends the current guidance to eliminate the diversity in practice in the presentation of unrecognized tax benefits. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The pronouncement is effective prospectively for fiscal years and interim periods beginning after December 15, 2013, and retrospective application is permitted. The adoption of this pronouncement did not have a material effect on the Company’s consolidated financial position or results of operations.

In April 2013, the FASB issued ASU 2013-07, "*Presentation of Financial Statement (Topic 205), Liquidation Basis of Accounting."* The amendment requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Liquidation is imminent when the likelihood is remote that the entity will return from liquidation and either (a) a plan for liquidation is approved by the person or persons with the authority to make such a plan effective and the likelihood is remote that the plan execution of the plan will be blocked by other parties or (b) a plan for liquidation is being imposed by other forces. Financial statements prepared using the liquidation basis of accounting are required to present relevant information about an entity’s expected resources in liquidation by measuring and presenting assets at the amount of the expected cash proceeds from liquidation. The entity should include in its presentation of assets any item it had not previously recognized under U.S. GAAP but that it expects to either sell in liquidation or use in settling liabilities. An entity should recognize and measure liabilities in accordance with U.S. GAAP that otherwise applies to those liabilities. The entity is also required to accrue and separately present the costs that it expects to incur and the income that it expects to earn during the expected duration of the liquidation, including any costs associated with sale or settlement of those assets and liabilities. Additionally, the amendment requires disclosures about an entity’s plan for liquidation, the methods and significant assumptions used to measure assets and liabilities, the type and amount of costs and income accrued, and the expected duration of the liquidation process. The pronouncement is effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013 and interim reporting periods therein, early adoption is permitted. The adoption of this pronouncement did not have a material effect on the Company’s consolidated financial position and results of operations.

In April 2014, the FASB issued ASU 2014-08, "*Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity."* ASU 2014-08 on Discontinued Operations changes the criteria for determining which disposals can be presented as discontinued operations and modified related disclosure requirements. Under the new guidance, a discontinued operation is defined as: (i) a disposal of a component or group of components that is disposed of or is classified as held for sale that represents a strategic shift that has or will have a major effect on an entity’s operations and financial results or (ii) an acquired business or nonprofit activity that is classified as held for sale on the date of acquisition. The standard states that a strategic shift could include a disposal of (i) a major geographical area of operations, (ii) a major line of business, (iii) a major equity method investment, or (iv) other major parts of an

entity. Under the current US GAAP, an entity is prohibited from reporting a discontinued operation if it has certain continuing cash flows or involvement component after the disposal. The new guidance eliminates these criteria. The adoption of this pronouncement is not expected to have a material effect on the Company's consolidated financial position or results of operations.

12. Fair Value of Financial Instruments:

Assets and Liabilities Measured at Fair-Value – The Company follows authoritative guidance on fair value measurements, which defines fair-value, establishes a framework for measuring fair-value, and expands disclosures about fair-value measurements. The guidance applies to reported balances that are required or permitted to be measured at fair-value under existing accounting pronouncements.

The Company follows authoritative guidance on the fair value option for financial assets, which permits companies to choose to measure certain financial instruments and other items at fair-value in order to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently. However, we have not elected to measure any additional financial instruments and other items at fair-value (other than those previously required under other GAAP rules or standards) under the provisions of this standard.

The guidance emphasizes that fair-value is a market-based measurement, not an entity-specific measurement. Therefore, a fair-value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair-value measurements, the guidance establishes a fair-value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). In instances where the determination of the fair-value measurement is based on inputs from different levels of the fair-value hierarchy, the level in the fair-value hierarchy within which the entire fair-value measurement falls is based on the lowest level input that is significant to the fair-value measurement in its entirety. Our assessment of the significance of a particular input to the fair-value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The following table represents the carrying value and fair value of the Company's financial assets and liabilities as of March 31, 2014 and December 31, 2013, respectively.

	March 31, 2014		December 31, 2013	
Description	Carrying Value	Fair Value (Level 2)	Carrying Value	Fair Value (Level 2)
Investment in Marketable Securities	$3,301,875	$3,301,875*	$3,380,864	$3,380,864

*The Company received $108,972 in principal repayments during the first three-months of 2014.

During 2012, the Company purchased mortgage backed securities with either AA or AAA ratings fully guaranteed by US government agencies (the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation). The fair values of mortgage backed securities originated by US government agencies are based on a pricing model that incorporates coupon type, prepayment speeds and the type of collateral backing the securities. A discount rate is applied to the cashflows in the model to arrive at the fair value. Market quotes, current yields, and their spreads to benchmark indices are obtained for each type of security. With this data, a yield curve is derived for each category of mortgage backed securities. Each security is priced by discounting the cashflow stream by the appropriate yield found on the yield curve. As the significant inputs used to derive the value of the mortgage-backed securities are observable market inputs, the fair value of these securities are included in the Level 2 fair value hierarchy.

The Company estimates that fair value approximates carrying value for cash equivalents, rents receivable, prepaid and other assets, and accounts payable due to the relatively short maturity of the instruments.

Fair Value Measurements:

The Company has maintained an interest in the Grove, which originally represented a 20% limited partnership interest in the Grove. Based on four subsequent capital raises through 2009, each of which the Company chose not to participate in, the Company's share was diluted to approximately 9.99% as of December 31, 2010, and has since been diluted to 9.32%. On March 18, 2011, the Grove's lender, Prudential Industrial Properties, LLC ("Prudential"), commenced a foreclosure action against the Grove by filing a complaint in the Circuit Court of Palm Beach County to foreclose upon the Grove property, alleging that the Grove had defaulted on its loan from Prudential and that the Grove was indebted to Prudential in the amount of over $37 million in principal and over $8 million in interest and fees. On September 19, 2013, the Grove was sold, the foreclosure action was dismissed and the Grove's debt to Prudential was repaid. The investment is held in a taxable REIT subsidiary of the Company with $0 value and the Company has a $1,315,000 deferred tax liability related to the Grove, which represents taxable losses not yet recorded pursuant to the equity method of accounting. Gyrodyne did not receive any distribution in connection with the sale. Under the agreement with the purchaser, Grove may receive certain additional payments if certain development benchmarks are achieved by the purchaser. Gyrodyne cannot predict whether these benchmarks will be achieved or as to the timing or amount of any further distributions by Grove. Gyrodyne does anticipate it will be required to recognize its deferred tax liability during 2014.

The facts and circumstances of the Grove make it unreasonable to present a fair value utilizing a Level 3 methodology, the lowest methodology which allows for broad assumptions; therefore, in accordance with the exception rules for thinly traded/lack of marketability of distressed assets, the Company is not presenting a fair value. The Company is accounting for the investment under the equity method. As of March 31, 2014, the carrying value of the Company's investment was $0.

13. Impairment of Real Estate Investments:

The Company assesses on a regular basis whether there are any indicators that the carrying value of real estate assets may be impaired. Potential indicators may include an increase in vacancy at a property, tenant reduction in utilization of a property, tenant financial instability and the potential sale of the property in the near future. An asset is determined to be impaired if the asset's carrying value is in excess of its estimated fair value.

There were no impairment charges during the three months ended March 31, 2014, or 2013, respectively.

14. Accumulated Other Comprehensive Income:

Accumulated other comprehensive income as of March 31, 2014 and December 31, 2013 was $148,772 and $118,789, respectively. The balances were comprised of the following:

	March 31, 2014	December 31, 2013
Unrecorded loss on investments	$(35,190)	$(65,173)
Unrecorded gain on pension	183,962	183,962
Accumulated other comprehensive income	$148,772	$118,789

The change in other comprehensive income was restricted to unrealized gain or loss in marketable securities, a balance sheet item, and had no impact on net income. Therefore, there were no reclassifications from other comprehensive income to net income for the periods presented.

15. Reclassifications:

Certain amounts in the prior period, including strategic alternative expenses previously included in general and administrative expenses in the condensed consolidated statement of operations have been reclassified to conform to the classification used in the current period.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

When we use the terms "Gyrodyne," the "Company," "we," "us," and "our,' we mean Gyrodyne Company of America, Inc. and all entities owned by us, including non-consolidated entities, except where it is clear that the term means only the parent company. References herein to our Quarterly Report are to this Quarterly Report on Form 10-Q for the three-months ended March 31, 2014.

Cautionary Statement Concerning Forward- Looking Information. This Quarterly Report and the documents incorporated by reference into this Quarterly Report contain forward-looking statements about the Company within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Statements containing the words "believes," "anticipates," "estimates," "expects," "intends," "plans," "seeks," "will," "may," "should," "would," "projects," "continues" and similar expressions or the negative of these terms constitutes forward-looking statements that involve risks and uncertainties. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and they are included in this Quarterly Report for the purpose of invoking these safe harbor provisions. Such statements are based on current expectations and are subject to risks, uncertainties and changes in condition, significance, value and effect. In September 2013, the Board of Directors approved a plan of liquidation intended to qualify as a tax liquidation, which included a plan of merger and other related transactions. The risks, uncertainties and changes in condition, significance, value and effect that could cause the Company’s actual results to differ materially from anticipated results include risks and uncertainties relating to the process of exploring strategic alternatives, risks associated with the Company’s ability to implement the tax liquidation, plan of liquidation or the plan of merger, the risk that the proceeds from the sale of our assets may not be sufficient to satisfy our obligations to our current and future creditors, the risk of shareholder litigation relating to the tax liquidation, the plan of liquidation or the plan of merger and other unforeseeable expenses related to the proposed liquidation, the tax treatment of condemnation proceeds, the effect of economic and business conditions, risks inherent in the real estate markets of Suffolk and Westchester Counties in New York, Palm Beach County in Florida and Fairfax County in Virginia, the ability to obtain additional capital to develop the Company’s existing real estate and other risks detailed from time to time in the Company’s SEC filings. Except as may be required under federal law, we undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur.

Overview

Gyrodyne Company of America, Inc. ("Gyrodyne" or the "Company") is a self-managed and self-administered real estate investment trust ('REIT") formed under the laws of the State of New York. The Company manages its business as one operating segment. Prior to December 30, 2013, the Company's primary business was the investment in and the acquisition, ownership and management of a geographically diverse portfolio of medical office, industrial and development of industrial and residential properties located in the Northeast region of the United States. On December 30, 2013, the Company distributed to its shareholders, as the non-cash portion of the special dividend announced on September 12, 2013 (the "Special Dividend"), all of the equity interests of its subsidiary Gyrodyne Special Distribution LLC ("GSD"), which owned 100% of the interests in the Company's four real estate properties, subject to related mortgage debt in favor of Flowerfield Mortgage Inc., also a subsidiary of the Company, with the Company having the contractual right to manage the business and properties of GSD. Based on management provisions set forth in GSD's limited liability company agreement which designates sole management authority in the Company, the Company concluded that GSD is a variable interest entity and that GSD's financial statements should be consolidated with the Company's. Accordingly, we may use references to "we" or "our" to refer to the Company and GSD and "the Company's properties" or "GSD's properties" (or derivations thereof) interchangeably in this report. In that connection, however, it should be noted that GSD has legal title to the properties and will incur any operating or capital losses resulting from the properties, due to risks as outlined below or otherwise. However, such losses may adversely impact GSD's ability to meet debt service obligations and or repayments of mortgages to Flowerfield Mortgage, Inc. or payment of management fees or result in capital needs at GSD that might require additional capital from Gyrodyne, or external sources.

Substantially all of GSD's properties are subject to net leases in which the tenant reimburses GSD for a portion, all of or substantially all of the costs and/ or cost increases for utilities, insurance, repairs and maintenance, and real estate taxes. Certain leases provide that GSD is responsible for certain operating costs.

As of March 31, 2014 and December 31, 2013, the Company has an investment in three separate mortgages of approximately $13,606,000 and $13,841,000, respectively, which is eliminated in consolidation. The mortgages contain a first lien on the medical parks related real estate it previously owned. The previously owned real estate was included in a distribution to shareholders of ownership interests in Gyrodyne Special Distribution LLC ("GSD LLC") on December 30, 2013 subject to the mortgages owned by the Company along with the Company retaining managing member control in GSD LLC. Additionally, the Company has an estimated 9.32% limited partnership interest in Callery Judge Grove, L.P. (the "Grove"), a limited partnership, which in 2013 sold its only property, an undeveloped Florida property, ("Grove Property").

Following the December 30, 2013 distribution of all of the common membership interests of GSD to the Company's shareholders in the Special Dividend, the Company has been managing GSD pursuant to the terms of GSD's limited liability company agreement which provides that the Company has sole and absolute discretion regarding the management and affairs of GSD. In its capacity as GSD's managing member, the Company has unilateral authority, without seeking GSD shareholder approval, over the management of the real estate assets, including leasing and sale

of its real estate holdings and the execution of any agency and brokerage agreements to facilitate such leases and sales, investing in its real estate holdings through capital improvements and proceeding strategically with seeking to maximize the value of the undeveloped Flowerfield property. Under GSD’s limited liability company agreement, the Company is entitled to market-rate compensation for its services as well as reimbursement for any costs and expenses incurred by and properly allocable to GSD. In April 2014, the Company’s board of directors approved a full cost mark-up based management fee to be charged to GSD equal to reimbursement of expenses plus a mark-up of 8.5%, which percentage falls in the lower quartile of similar fees charged by comparable companies according to a benchmarking study. In connection with such management services, the Company is obligated to provide an initial liquidity facility to GSD in an amount not to exceed $2.5 million which the Company may determine from time to time. The interest income on the debt facilities provided to GSD is REIT qualified income. The foregoing income earned by the Company for managing GSD is not deemed to be REIT qualified income and therefore is appropriately payable to its taxable REIT subsidiary, Flowerfield Properties, Inc.

The Company, through its managing member control in GSD, with no ownership interest, controls two medical office parks and ten of fourteen buildings in a third medical park, together comprising approximately 131,000 rentable square feet and a multitenant industrial park comprising approximately 130,000 rentable square feet. In addition, the Company, through the same managing member control, maintains approximately 68 acres of property in St. James, New York.

The Company believes it has qualified, and expects to continue to qualify as a REIT under Section 856(c) (1) of the Internal Revenue Code of 1986 as amended (the "Code"). Accordingly, the Company generally will not be subject to federal and state income tax, provided that distributions to its shareholders equal at least 90% of its REIT taxable income as defined under the Code. The Company is permitted to participate in certain activities from which it was previously precluded in order to maintain its qualifications as a REIT However these activities must be conducted in an entity which elected to be treated as a taxable REIT subsidiary ("TRS") under the Code. The Company has one taxable REIT subsidiary which is subject to federal and state income tax on the income from these activities.

The Company conducts its operations either directly or indirectly through (1) property owned subsidiaries and lender subsidiaries, or (2) Flowerfield Properties, Inc. a wholly owned TRS. Property owner subsidiaries are landlords leasing properties in which the Company has a managing member control but no ownership interest, and lender subsidiaries are lenders loaning funds where the Company made an investment in a loan asset, but in all cases these subsidiaries are separate and distinct legal entities. GSD is a property owner subsidiary in which the Company is the sole managing member with managerial authority and investment/disposition authority. Flowerfield Mortgage Inc. ("FMI") is a lender subsidiary wholly owned by the Company with three loan assets secured by property held in the property owner subsidiaries.

In addition, the Company has an estimated 9.32% limited partnership interest in Callery Judge Grove, L.P. (the "Grove"), a limited partnership, which in September 2013 sold its only asset, an undeveloped Florida property, the "Grove Property". Gyrodyne did not receive any distribution in connection with the sale. Under the agreement with the purchaser, the Grove may receive certain additional payments if certain development benchmarks are achieved by the purchaser, which could enable future distributions to Gyrodyne. Gyrodyne cannot predict whether these benchmarks will be achieved or as to the timing or amount of any further distributions by Grove. Gyrodyne does anticipate it will be required to recognize its deferred tax liability during 2014.

Strategic Process

In July 2012, the Company received an additional $167,530,657 from the State of New York in payment of the judgments in the Company's favor in the Company's condemnation litigation with the State which consisted of $98,685,000 in additional damages (the "2012 Proceeds"), $1,474,941 in costs, disbursements and expenses, and $67,370,716 in interest. Subsequent to receiving the payment the Company was notified by the State of a $29,000 overpayment, which the Company returned, due to an error in the interest calculation by the State of New York.

In August 2012, the Company announced that it was undertaking a strategic review, which was designed to maximize shareholder value through one or more potential cash distributions and/or through a potential sale, merger or other strategic combination, consistent with the Company's stated goal of providing one or more tax efficient liquidity events to its shareholders. In August 2012, the Company retained Rothschild, Inc., as financial advisor, and Skadden, Arps, Slate, Meagher & Flom LLP, as legal advisor, and authorized a committee of its Board (the "Strategic Alternatives Committee"), to lead the strategic review process. Commencing in October 2012, the Company solicited interest in proposals to acquire the Company from over 260 entities, and, in March 2013, an information memorandum was circulated to over 30 entities who had executed nondisclosure agreements. In the several months thereafter, members of its Board and management met with several bidders, permitted such bidders to conduct due diligence and indicative bids were received from a number of parties. Some of such indicative bids were for the whole Company and others contemplated the sale of a partial interest to a bidder who would assume control, but none of such bids were fully developed or contained value parameters and other terms acceptable to its Board.

Following a change in tax law in January 2013 reducing the recognition period applicable for the 2012 and 2013 taxable year to five years, the Company applied for a private letter ruling from the IRS in March 2013 and ultimately received a favorable ruling on August 28, 2013 (the "PLR"). The PLR concludes that the Company's receipt of the 2012 Proceeds occurred outside of the applicable recognition period for 2012, and therefore permits the Company to distribute, by means of a dividend such as the Special Dividend described below, the gains realized from its receipt of the 2012 Proceeds, subject to a 4% excise tax but without incurring the built-in gains tax.

Further to the Company's previously stated goal of providing one or more tax efficient liquidity events to its shareholders and taking into account, among other factors, the Company's receipt of the PLR, the Board concluded that it is in the best interests of Gyrodyne and its shareholders to liquidate the Company for federal income tax purposes. On September 12, 2013, the Board adopted a plan of liquidation, pursuant to which the Company intends to dispose of its remaining assets in an orderly manner designed to obtain the best reasonably available value for such assets and to complete a tax liquidation, including pursuant to a merger into a new wholly owned limited liability company within a two year period from the adoption of the plan of liquidation.

On September 13, 2013, the Board declared a special dividend in the amount of $98,685,000, or $66.56 per share, of which approximately $68,000,000, or $45.86 per share, was be paid in cash on December 30, 2013. The balance of the Special Dividend consisted of all of the equity interests of its subsidiary, GSD, which owns 100% of the interests in the Company's four real estate properties, subject to related mortgage debt in favor of Flowerfield Mortgage Inc., also a subsidiary of the Company, with the Company having the contractual right to manage the business and properties of GSD.

In a meeting held on October 9, 2013, the Board determined that in order to most clearly and directly accomplish its goal of distribution of the $98.7 million as a return of capital to shareholders, and in light of relevant consideration of issues of business continuity, shareholder liquidity and timeliness of execution, the Company would pursue the tax liquidation by means of a merger of the Company into Gyrodyne, LLC, New York a limited liability company and a direct and wholly-owned subsidiary of the Company. At such meeting the Board also determined that, if the merger into Gyrodyne, LLC is not completed by December 31, 2013, the most likely in-kind distribution in the special dividend would be of nontransferable interests in Gyrodyne Special Distribution, LLC, another newly formed wholly-owned subsidiary of the Company. In order to achieve the full benefits of the special dividend, the Company must make a distribution of in-kind assets with a value of at least $30,685,000 in the aggregate.

In connection with the strategic process that resulted in the Special Dividend, the company incurred costs of $3.4 million for the 4% excise tax, $1.6 million for transaction costs, and approximately $5.1 million for Incentive Compensation Plan payments.

On October 21, 2013, the Company filed a preliminary proxy statement with the Securities and Exchange Commission ("SEC") which contains, among other matters, the Board's recommendation that the shareholders vote in favor of the a plan of merger at the annual shareholders meeting for the year ended December 31, 2012. The Company received comments from the SEC on November 18, 2013. On May 8, 2014 the Company responded to such comments and filed a revised preliminary proxy statement with the SEC. Subject to the completion of the SEC review process, the Company currently expects to file definitive proxy materials with the SEC during the second quarter of 2014 and hold a special meeting of shareholders to vote upon the proposed merger in the third quarter of 2014. The foregoing description of the Company's strategic process is qualified in its entirety by the more in-depth description contained in such amended preliminary proxy statement/prospectus, which description is incorporated by reference into this Quarterly Report.

Economic Conditions

Healthcare Legislation: The Federal health care legislation enacted in 2010 will potentially affect medical office real estate due to the direct impact on its tenant base. While the impact is not expected to be immediate due to the multi-year phase in period of the legislation, medical professionals are reviewing their real estate options which include remaining status quo, increasing tenant space to address a higher volume of patients as well as combining practices with other professionals. As a result, our business could be impacted by factors including (1) difficulty transitioning doctors to longer term leases, (2) difficulty raising rates and (3) increased challenges in re-leasing space.

As of March 31, 2014, the average effective rental revenue per square foot adjusted for tenant improvements was $19.04 compared to $18.71 on December 31, 2013. The Company defines the effective revenue per square foot as the annual rate per square foot stated in the lease reduced by the average annual tenant improvement allowance provided for in such leases.

Business Strategy

On December 30, 2013, the Company distributed to its shareholders all of the equity interests of GSD, which owned 100% of the interests in the Company's four real properties, subject to related mortgage debt in favor of Flowerfield Mortgage Inc., also a subsidiary of the Company, with the Company having the contractual right to manage the business and properties of GSD. The Board has also approved the Plan of Merger, subject to the approval of shareholders of the Company holding at least two-thirds of the outstanding shares, pursuant to which the Company

and GSD will be merged with and into Gyrodyne, LLC with the Company's shareholders, holders of GSD equity interests and holders of interests in the Dividend Note all exchanging their respective interests for equity interests in Gyrodyne, LLC. The Company intends to call a special meeting of shareholders to vote upon the Plan of Merger after the related proxy statement/prospectus it filed on October 21, 2013 is declared effective by the SEC.

We focus our business strategy on maximizing the intrinsic value per share through aligning our operating and investment strategy with our goal of executing on a tax efficient liquidity event or series of tax efficient liquidity events. This strategy involves a balance between preserving capital and improving the market value of the real estate portfolio which we currently manage for GSD. Our objectives are as follows:

- managing the real estate portfolio currently held by GSD to improve operating cash flow while simultaneously increasing the market values of the underlying operating properties;
- pursuing the re-zoning effort of the Flowerfield property on behalf of GSD to maximize its value;
- focusing use of capital by the Company or GSD to that which preserves or improves the market value of GSD's real estate portfolio;
- maximizing Funds From Operations ("FFO") and company adjusted FFO ("AFFO");
- managing the tax liquidation process.

We believe these objectives help us achieve our strategic objective in the long term and strengthen our business and enhance the value of our underlying real estate portfolio in the short term.

It is the current intent of the Company's Board to seek shareholder approval for the merger and, if such approval is obtained, to consummate the merger. Although the consummation of the merger will complete the tax liquidation, the Board currently intends that, following the merger, Gyrodyne, LLC will operate with a business plan to dispose of its current real property assets in an orderly manner designed to obtain the best value reasonably available for such assets. Proceeds of such dispositions will be used to settle any claims, pending or otherwise, against Gyrodyne, LLC and to make distributions to holders of Gyrodyne, LLC interests. When all properties of Gyrodyne, LLC are disposed of, it is intended that Gyrodyne, LLC will dissolve and a final distribution will be made.

Sales of properties, either by GSD or by Gyrodyne, LLC if the merger is consummated, could take the form of individual sales of assets, sales of groups of assets organized by business, type of asset or otherwise, a single sale of all or substantially all of the assets, or some other form of sale (including the sale of GSD itself prior to the merger). The assets may be sold to one or more purchasers in one or more transactions over a period of time.

It is not anticipated that any shareholder votes will be solicited with respect to the approval of the specific terms of any particular sales of assets approved by the Company's Board, or if after the merger by Gyrodyne, LLC's Board. The prices at which the various assets may be sold depends largely on factors beyond our control, including, without limitation, the condition of financial markets, the availability of financing to prospective purchasers of the assets, U.S. and foreign regulatory approvals, public market perceptions, and limitations on transferability of certain assets.

Uncertainties as to the precise value of our non-cash assets and the ultimate amount of our liabilities make it impracticable to predict the aggregate net value ultimately distributable to shareholders in the liquidation. Claims, liabilities and expenses from operations, including operating costs, salaries, income taxes, payroll and local taxes, legal, accounting and consulting fees and miscellaneous office expenses, although currently declining, will continue to be incurred following shareholder approval of the Plan of Merger. However, certain professional fees, such as legal expenses and the fees of outside financial advisors have recently increased, as a result of the strategic review, the PLR and the liquidation process. These expenses will reduce the amount of assets available for ultimate distribution to shareholders, and, while a precise estimate of those expenses cannot currently be made, management and our Board believe that available cash and amounts received on the sale of assets will be adequate to provide for our obligations, liabilities, expenses and claims (including contingent liabilities) and to make cash distributions to shareholders. However, no assurances can be given that available cash and amounts received on the sale of assets will be adequate to provide for our obligations, liabilities, expenses and claims and to make cash distributions to shareholders. If such available cash and amounts received on the sale of assets are not adequate to provide for our obligations, liabilities, expenses and claims, distributions of cash and other assets to our shareholders will be reduced and could be eliminated.

First Quarter 2014 Transaction Summary

The following summarizes our significant transactions and other activity during the three months ended March 31, 2014.

For a discussion of the Management Services Arrangement see footnote 3 – Principles of Consolidation.

21

Under the aforementioned agreement, the Company received reimbursement of costs and management fees in the quarter ended March 31, 2014 of $1,483,820 and $88,878, respectively, and earned interest income on its debt facilities to GSD of $170,174.

Investments – The Company received principal payments during the three months ended March 31, 2014 of approximately $109,000 from its 2012 investment in conforming agency fixed rate mortgage pass through securities with either AA or AAA ratings fully guaranteed by US government agencies (the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation). The portfolio is currently generating a yield of approximately 2%.

Leasing – During the three months ended March 31, 2014, the Company executed 11 lease renewals encompassing approximately 14,000 square feet, and approximately $245,000 in annual revenue. In addition, the Company entered into 2 new leases encompassing approximately 4,000 square feet and $93,000 in annual revenue. Partially offsetting the new leases and renewals were 5 terminations during the three month period ending March 31, 2014, comprising approximately 12,000 square feet and approximately $193,000 in annual revenue. The Company realized a decrease in net deferred revenue of approximately $6,900.

The new leases and lease extensions signed during the quarter ended March 31, 2014 included tenant allowances which the Company estimates at a cost of approximately $62,000, and rent abatements of approximately $6,000. There were no lease commissions incurred by the Company during the quarter ended March 31, 2014.

The continued economic volatility for small businesses and medical practices has impacted property management firms, including the Company's ability to renew leases at comparable rates if at all, without providing either rent abatements or comparable other lease incentives. During 2012 through March 2014, medical office parks and industrial parks continued to face challenges to maintain both rental rates and occupancy. Rental revenues were $1,120,645 and $1,126,637 for the three months ended March 31, 2014, and December 31, 2013, respectively, a quarter over quarter decrease of $5,992. Although the Company successfully avoided significant portfolio wide rental revenue degradation, the company sees continuing challenges to maintain both rental rates and occupancy during the slow economic recovery. The below table reflects the Company's rental revenue at its industrial park vs. the combined rental revenue of its medical parks and the related occupancy rate and effective rental rate of each.

	Three Months Ended March 31, 2014			Three Months Ended December 31, 2013		
Industrial Park Rental Revenue	$	428,281		$	440,263	
Combined Medical Park Rental Revenue	$	692,364		$	686,374	
Occupancy Rate Industrial Park		81	%		84	%

Occupancy Rate Combined Medical Parks		85	%		83	%
Total Occupancy Rate		83	%		83	%
Average Effective Rental rate per square foot – Industrial Park	$	14.00		$	13.87	
Effective Rental Rate per square foot- Medical Parks	$	23.63		$	23.56	
Average Total Effective rental rate per square foot	$	19.04		$	18.71	

Our leasing activity has resulted in total lease commitments as of March 31, 2014 and December 31, 2013 of $16,023,000 and $15,528,000, respectively. There were two new leases and eleven renewals during the quarter, with the resulting annual revenue commitment partially offset by 5 terminations during the quarter. The Company has launched aggressive leasing strategies at each of its medical parks. During the first quarter the Company estimates approximately $68,000 of tenant incentives were provided to attract new tenants. However, the economy continues to be challenging and, to compete effectively with other local landlords, the Company may offer aggressive tenant improvements in exchange for signing medium and long term lease commitments.

Director Compensation

Effective January 1, 2014, the Board authorized an increase in the Chairman’s fee to $78,000. The combined annual fees payable to the Chairman total $120,000 per year. The increase was authorized to compensate the Chairman, for his significantly greater role, responsibilities and time commitment, as well as enhanced potential legal and reputational risks, resulting from the Company’s strategic process.

Subsequent Events

Proxy/Prospectus – Merger with GSD – The Company filed an amended proxy prospectus on May 8, 2014, amending the preliminary proxy/prospectus filed on October 21, 2013 to seek shareholder approval for the merger of GSD and Gyrodyne into Gyrodyne LLC.

Subsequent to March 31, 2014, the Company signed one new lease encompassing 1,200 square feet and approximately $12,000 in annual revenue and three lease renewals encompassing 3,070 square feet and approximately $65,000 in annual revenue. Offsetting the new leases were 2 terminations aggregating approximately 2,300 square feet and approximately $27,000 in annual revenue.

Subsequent to March 31, 2014, the Company entered into a brokerage agreement and began the process of marketing for sale the Cortlandt Manor Medical Center including the two neighboring lots and the Fairfax Medical Center.

Strategic Alternatives

On March 12, 2014, the Company and Rothschild Inc. ("Rothschild") executed an amendment to the engagement letter dated as of August 8, 2012 (the "Engagement Letter") between Rothschild and the Company, pursuant to which the engagement of Rothschild was terminated and the Company agreed to pay Rothschild $970,967, of which $850,000 was recorded in 2013 and the remaining $120,967 was an expense in the first quarter of 2014, in full satisfaction of any and all amounts due or alleged to be due under the Engagement Letter by reason of the special dividends paid by the Company to its shareholders on December 30, 2013 and January 31, 2014, respectively, any other corporate transaction publicly announced prior to March 12, 2014 or any amount that might have otherwise become due by reason of the Company’s obligation to pay Rothschild a success fee in connection with certain transactions that may be consummated during a specified period following a termination of the engagement. The Company had previously paid Rothschild a total of $629,032 pursuant to the Engagement Letter. Rothschild had been serving as the Company’s financial advisor in connection with the Company’s strategic process.

On October 21, 2013, the Company filed a preliminary proxy statement with the Securities and Exchange Commission ("SEC") which contains, among other matters, the Board's recommendation that the shareholders vote in favor of the a plan of merger at the annual shareholders meeting for the year ended December 31, 2012. The Company received comments from the SEC on November 18, 2013. On May 8, 2014, the Company responded to such comments and filed a revised preliminary proxy statement with the SEC. Subject to the completion of the SEC review process, the Company currently expects to file definitive proxy materials with the SEC during the second quarter of 2014 and hold a special meeting of shareholders to vote upon the proposed merger in the third quarter of 2014.

The Grove

The Company has maintained an interest in the Grove, which originally represented a 20% limited partnership interest in the Grove. Based on four subsequent capital raises through 2009, each of which the Company chose not to participate in, the Company's share was diluted to approximately 9.99% as of December 31, 2010, and has since been diluted to 9.32%. On March 18, 2011, the Grove's lender, Prudential Industrial Properties, LLC ("Prudential"), commenced a foreclosure action against the Grove by filing a complaint in the Circuit Court of Palm Beach County to foreclose upon the Grove property, alleging that the Grove has defaulted on its loan from Prudential and that the Grove is indebted to Prudential in the amount of over $37 million in principal and over $8 million in interest and fees. On September 19, 2013, the Grove was sold, the foreclosure lawsuit was dismissed and the Grove's debt to Prudential was repaid. The investment is held in a taxable REIT subsidiary of the Company with $0 value and the Company has a $1,315,000 deferred tax liability related to the Grove, which represents taxable losses not yet recorded pursuant to the equity method of accounting. Gyrodyne did not receive any distribution in connection with the sale. Under the agreement with the purchaser, Grove may receive certain additional payments if certain development benchmarks are achieved by the purchaser. Gyrodyne cannot predict whether these benchmarks will be achieved or as to the timing or amount of any further distributions by Grove. Gyrodyne does anticipate it will be required to recognize its deferred tax liability during 2014.

Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The condensed 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 condensed 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 condensed consolidated financial statements, giving due consideration to materiality. On a regular basis, we evaluate our assumptions, judgments and estimates. 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. We believe there have been no material changes to the items that we disclosed as our critical accounting policies under Item 7, "Management’s Discussion and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the year ended December 31, 2013.

Principles of consolidation - The accompanying consolidated financial statements include the accounts of Gyrodyne Company of America, Inc. and all majority owned subsidiaries.

The Company consolidates its wholly-owned subsidiaries, partnerships and joint ventures which it controls (i) through voting rights or similar rights or (ii) by means other than voting rights if the Company is the primary beneficiary of a variable interest entity ("VIE").

If an investment is determined to be a VIE, the Company performs an analysis to determine if the Company is the primary beneficiary of the VIE. GAAP requires a VIE to be consolidated by its primary beneficiary. The primary beneficiary is the party that has a controlling financial interest in an entity. In order for a party to have a controlling financial interest in an entity, it must have (1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits of an entity that could potentially be significant to the VIE.

The Company's consolidated VIE, GSD, was determined to be a VIE primarily because the Company has the power to direct the activities of the VIE that most significantly impact the entity's economic performance and has the obligation to absorb losses or the right to receive benefits of the entity. The VIE owns all of the real estate that was previously owned by the Company prior to the distribution of ownership interests in GSD. The VIE holds mortgage obligations payable to a wholly-owned subsidiary of the Company of $13,606,486 and $13,840,889, as of March 31, 2014 and December 31, 2013, respectively. As previously discussed in the Company's Annual Report filed on form 10-K, the estimated fair value of the real estate net of its mortgage obligations and other direct liabilities was $30,685,000 on December 31, 2013. At March 31, 2014 and December 31, 2013, the net book value of GSD was approximately $18,375,000 and $19,058,000, respectively. The VIE is essentially being managed and operated by the Company where the Company is the primary obligor for liabilities incurred on behalf of the VIE. As a result, the Company could be held liable for current and future obligations of the VIE, and in turn it would be the Company’s obligation to seek reimbursement from the VIE.

Investments in affiliates in which the Company has the ability to exercise significant influence, but not control, are accounted for under the equity method. The Company did not have any such investments at March 31, 2014 and December 31, 2013. Investment interests in excess of 5% in limited partnerships are accounted for under the equity method. All consolidated subsidiaries are wholly owned. All inter-company balances and transactions have been eliminated. There were no investments accounted for under the equity method as of March 31, 2014 and December 31, 2013.

Revenue Recognition

Rental revenue is recognized on a straight-line basis, which averages minimum rents over the terms of the leases. The excess of rents recognized over amounts contractually due, if any, is included in deferred rents receivable on the Company's balance sheet. Alternatively, rents received in advance of rents recognized, if any, are included in deferred rent liability on the Company’s balance sheet. Certain leases also provide for tenant reimbursements of common area maintenance and other operating expenses and real estate taxes. Tenant reimbursements to the Company for expenses where the Company negotiates, manages, contracts and pays the expense on behalf of the tenant are recognized as revenue when they become estimable and collectible. Ancillary and other property related income is recognized in the period earned. The only exception to the straight line basis is for tenants at risk of default. Revenue from tenants where collectability is in question is recognized on a cash basis when the rent is received.

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-nine years for buildings and improvements and three to twenty years for machinery and equipment.

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

The Amended proxy statement/prospectus filed on May 8, 2014 includes a merger and plan of liquidation. If the shareholders approve the merger/plan of liquidation, then the Company will be required to adopt the Liquidation Basis of Accounting. Financial statements prepared using the liquidation basis of accounting are required to present real estate assets at the amount of the expected cash proceeds from liquidation.

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 considered to be impaired 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 *Accounting for the Impairment or Disposal of Long Lived Assets.*

Assets and Liabilities Measured at Fair-Value

On January 1, 2008, the Company adopted *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair-value measurements. The guidance for Fair Value Measurements applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

On January 1, 2008, the Company adopted *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits companies to choose to measure certain financial instruments and other items at fair value in order to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently. However, the Company has not elected to measure any additional financial instruments and other items at fair value (other than those previously required under other GAAP rules or standards) under the provisions of this standard.

The guidance for the Fair Value Option for Financial Assets and Financial Liabilities emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair-value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair-value measurements, the guidance establishes a fair-value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair-value measurement is based on inputs from different levels of the fair-value hierarchy, the level in the fair-value hierarchy within which the entire fair-value measurement falls is based on the lowest level input that is significant to the fair-value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair-value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

<u>Income taxes</u>

Effective May 1, 2006, the Company operates as a real estate investment trust (REIT) 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 at least 90% of its annual 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 qualified 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's investment in the Grove is held in a taxable REIT subsidiary of the Company and is subject to federal and state income taxes. Taxable REIT subsidiaries perform non-customary services for tenants, hold assets that the Company cannot hold directly and generally may engage in any real estate or non-real estate related business. Accordingly, through the investment in the Grove, the Company is subject to corporate federal and state income taxes on the Company's share of the Grove's taxable income.

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.

The Company follows the guidance of FASB Accounting Standards Codification, *Accounting for Uncertainty in Income Taxes*. This guidance, among other things, creates a two-step approach for evaluating uncertain tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that more-likely-than-not will be realized upon settlement. Derecognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. This interpretation specifically prohibits the use of a valuation allowance as a substitute for derecognition of tax positions, and it has expanded disclosure requirements.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2014 compared with the Three Months Ended March 31, 2013.

Rental revenues are comprised solely of rental income and amounted to $1,120,645 and $1,099,584 for the three months ended March 31, 2014 and 2013, respectively, an increase of $21,061 or 2%. The Fairfax Medical Center, Cortlandt Medical Center and Flowerfield Industrial Park each experienced an increase in revenue; amounting to $25,898, $3,876, and $1,528, respectively. The increase in rental revenue was mainly comprised of the Fairfax Medical Center resulting from increasing its occupancy rate to approximately 92% compared to an occupancy rate of approximately 79% at March 31, 2013. The Cortlandt Manor Medical Center occupancy rate increased to 88% compared to approximately 80% at March 31, 2013. The increase in occupancy rate was driven by one new 5 year lease effective March 1, 2014 comprising 2,767 sft and approximately $55,000 in annual rent. The Flowerfield Industrial Park occupancy rate at March 31, 2014 is 81% compared to approximately 87% at March 31, 2013. The revenue at Flowerfield remained mostly flat due to the net impact of terminations mainly occurring at the end of the first quarter of 2014. The drop in occupancy rate was mainly the result of Stony Brook University terminating two of the four leases effective March 31, 2014, comprising approximately 9,000 square feet and approximately $135,000 in annual revenue. Furthermore, we are continuing to work with the University on solutions to their real estate demands and believe that a portion of our available vacant space may meet some of their future needs. The Port Jefferson Professional Park experienced a reduction in revenue of $10,241 mainly due to a reduction in rental rates on renewals supplemented by one net termination in the third quarter of 2013 which remains vacant.

Tenant reimbursements represent expenses negotiated, managed and incurred directly by the Company on behalf of or for the benefit of the tenants. Tenant reimbursements were $179,390 and $189,640 for the three months ended March 31, 2014 and 2013, respectively, a decrease of $10,250 or approximately 5%. The tenant reimbursement decrease was mainly attributable to an approximate $14,000 decrease in tenant reimbursements at the Port Jefferson Professional Park which was offset by an approximate $7,000 increase in tenant reimbursements at the Flowerfield Industrial Park. The Port Jefferson Professional Park occupancy rate is flat with December 31, 2013, and, due to local market competition, we are forecasting that renewal terms will continue to adversely affect both rental rates and tenant reimbursements.

Rental expenses for the three months ended March 31, 2014 and 2013 were $711,602 and $662,670, respectively, an increase of $48,932 or 7%. Approximately $21,000 of the increase was due to an increase in utility expenses with the balance mainly comprised of an increase in maintenance, of $30,000.

General and administrative expenses for the three months ended March 31, 2014 and 2013 were $570,750 and $985,852, respectively, a decrease of $415,102 or approximately 42%. The major contributing factor to the decrease was the 2013 prepayment penalties on the Port Jefferson mortgage of $205,000 and the write-off of the related loan origination fees of approximately $40,000. In addition, the company incurred restructuring charges of approximately $64,000 during 2013 and a decrease in pension costs of approximately $108,000.

Strategic alternative expenses for the three months ended March 31, 2014 and 2013 were $337,742 and $341,361, respectively. The Company's transaction fees are mainly comprised of fees for counsel, financial advisors and other professional consultants to pursue the proposed merger /tax plan of liquidation which is further discussed in the amended proxy prospectus filed on May 8, 2014.

Depreciation expense for the three months ended March 31, 2014 and 2013 was $240,893 and $232,353, respectively, an increase of $8,540 or 4%.

Interest income was $23,832 and $58,381 for the three months ended March 31, 2014 and 2013, respectively, a decrease of $34,549. The decrease is mainly attributable to the significant reduction in its cash balances, and thereby related interest income, resulting from the Company's cash dividend of $68,000,000 which was paid on December 30, 2013.

Interest expense for the three months ended March 31, 2014 and 2013 was $134,538 and $5,786, respectively, an increase of $128,752. The increase in interest expense is the result of the Company's issuance on January 31, 2014 of a Global Dividend Note, payable in kind ("Cash or PIK") in the amount of $16,150,000, bearing interest (PIK) at 5% payable semiannually (PIK).

Net loss before condemnation and provision for income taxes was $671,658 and $880, 417, for the three months ended March 31, 2014 and 2013, respectively. The primary factors driving the decrease in loss was the savings of approximately $252,000 associated with the early repayment of the mortgage supplemented by the remaining items discussed above.

Condemnation income and expenses were not realized during the three months ended March 31, 2014 compared to condemnation expense of $2,360 for the three months ended March 31, 2013. The Company successfully concluded its condemnation case during the second quarter of 2012. The Company does not believe any remaining condemnation costs will be incurred as the case was settled with the State of New York in 2012.

The Company did not have a benefit or provision for income taxes for the three months ended March 31, 2014 and 2013.

The Company is reporting a net loss of $671,658 and $882,777 for the three months ended March 31, 2014 and 2013, respectively. The primary factors driving the decrease in loss was savings of approximately $252,000 associated with the early repayment of the mortgage supplemented by the remaining items discussed above.

The net loss from the non-controlling interest for the three months ended March 31, 2014 was $683,730. The Company did not have a non-controlling interest for the three months ended March 31, 2013. The non-controlling interest is comprised of Gyrodyne Special Distribution LLC which represents the non-cash portion of the first special dividend in 2013.

The net income (loss) attributable to Gyrodyne Company of America for the three months ended March 31, 2014 and 2013 was $12,072 and $(882,777), respectively.

LIQUIDITY AND CAPITAL RESOURCES

Variable Interest Entities

On December 30, 2013, the Company distributed Gyrodyne Special Distribution LLC (GSD) directly to the Company's shareholders with the Company retaining a management interest. Pursuant to the limited liability company agreement of GSD, the Company has unilateral control over the management of GSD including the ability to sell GSD or its assets, sign leases, make capital improvements and pursue the rezoning effort on the Flowerfield Industrial Park and its undeveloped land. In addition, the Company must provide GSD with a financing facility of up to $2.5 million. GSD does not have any working capital or management to support its operations but relies 100% on the services and working capital of the Company to manage and finance the operations of GSD.

In general, a reporting company must include in its consolidated financial statements the financial position and results of any entity in which the reporting company has a controlling financial interest. The Company has no equity ownership in GSD, but through its management interest it has the unilateral authority over GSD's real estate assets, including negotiating leases, making decisions regarding capital improvements, financing, acquisitions and dispositions, rezoning strategy on undeveloped property, negotiating management agreements, changing governance documents and timing of dissolution or liquidation. Based on the foregoing, and in accordance with ASC Topic 810-10, paragraph 15-14, the Company believes that it controls GSD. GSD is therefore a variable interest entity.

The Company has consolidated GSD's financial statements with the Company's because the Company is considered to be the primary beneficiary of GSD. The Company does not have any other variable interest entities. The consolidated variable interest entity assets and liabilities at March 31, 2014 and December 31, 2013 were $33,920,904 and $15,546,167 and $33,730,130 and $14,671,663, respectively. The Company monitors the credit quality of the mortgage obligations of GSD which are securitized by the underlying related medical property each of which resides in a single asset LLC. The discussion of the liquidity and capital resources is on a consolidated basis including the variable interest entity, GSD.

Management Services Arrangements

For a discussion on the Management Services Arrangement see footnote 3 – Principles of Consolidation.

Cash Flows: As we pursue strategic alternatives, we believe that a main focus of management is to effectively manage our balance sheet through cash flow management of our tenant leases, maintaining or improving occupancy, and pursuing and recycling capital.

We generally finance our operations and acquisitions through cash on hand. The Company filed an amended proxy statement/prospectus on May 8, 2014, thereby amending the preliminary proxy statement/prospectus on October 21, 2013 which included a Plan of Liquidation via a downstream merger into Gyrodyne, LLC (a newly formed wholly-owned subsidiary) which will be owned by the same shareholders as Gyrodyne. If the shareholders approve the proposed merger, the Company will be reporting under the Liquidation Basis of Accounting and expects to complete the sale of its assets and related distributions to shareholders by December 31, 2016.

As of March 31, 2014, the Company had cash and cash equivalents totaling approximately $8.5 million and investments in U.S. guaranteed hybrid mortgage backed securities of approximately $3.3 million. The Company anticipates that the combination of its current cash balance and cash flow from continuing operations will be adequate to fund business operations and the pursuit of the merger/tax plan of liquidation over the next twelve months. The Company has $11.8 million comprised of cash and investments in mortgage backed securities which will be partially used to fund the strategic alternative expenses in pursuit of the merger/tax plan of liquidation. The Company estimated and reported in the amended proxy statement/prospectus filed on May 8, 2014, under the heading “Estimated Cash Proceeds and Outlays: Indicated Distribution Range” total gross cash proceeds from the sale of its assets of approximately $45.0 million. Based on the Company’s current cash balance and the above forecast, the Company estimates distributable cash stemming from the liquidation of the Company of approximately $45.4 million.

In addition to these ongoing requirements, the continued economic challenges for small businesses, including the lack of available credit to many of our tenant classes who are small businesses and the uncertainty facing medical tenants brought about by the 2010 Federal health care reform legislation, could adversely affect our operating results and accordingly the estimated cash proceeds from the plan of liquidation.

Net cash used in operating activities were $4,399,391 and $542,698 during the three months ended March 31, 2014 and 2013, respectively. The underlying factors that impact working capital and therefore cash flows from operations are the timing of collections of rents and related tenant reimbursements and the payment of operating and general and administrative expenses. The cash used in the current period was primarily related to the payment of $2,850,199 Incentive Compensation payments to the Board of Directors and a former director that became payable on December 30, 2013, the payment date of the cash portion of the first special dividend of $68 million. In addition, the company paid approximately $970,000 to Rothschild in full satisfaction of its obligations under the contract with the Company.

Net cash (used in) provided by investing activities was $(167,865) and $255,951 during the three months ended March 31, 2014 and 2013, respectively. Cash used in investing activities in the current period was primarily the $238,636 in capital improvements to its real estate portfolio supplemented by land development costs of $38,201, partially offset

by receipt of principal repayments of $108,972 on the investment made in the 2012. Cash provided by investing activities in the prior period was primarily related to the receipt of principal repayments of approximately $381,347 on the investment made in 2012 partially offset by $98,479 in capital improvements to its real estate portfolio supplemented by land development costs of $26,917.

There was no cash provided by or used in financing activities in the current period. Net cash used in financing activities in the prior period was $5,013,415 and related to the principal prepayment and the prepayment penalties on the mortgage secured by the Port Jefferson Professional Park.

Beginning in the second half of 2007, the residential mortgage and capital markets began showing signs of stress, primarily in the form of escalating default rates on sub-prime mortgages, declining residential home values and increasing inventory nationwide. This “credit crisis” spread to the broader commercial credit markets and has reduced the availability of financing and increased interest rates. The extended weak economy, unemployment and lack of liquidity combined with the impact of the Healthcare Legislation has resulted in an extensive reduction in occupancy rates and related rental rates across residential, commercial and medical office properties. In certain cases the Company has addressed these challenges to date through various tenant incentives which resulted in the Company’s current market rents and related occupancy rates.

The Company has invested in medical office buildings, an asset class that has been facing challenges, partially attributable to the Patient Protection and Affordable Care Act and the Healthcare and Education Reconciliation Act of 2010 (together, the "Healthcare Legislation"). If the conditions triggered by the healthcare legislation continue, our portfolio may experience lower occupancy and effective rents, which would result in a corresponding decrease in net income, funds from operations and cash flows.   The Company successfully increased its lease commitments to $16.0 million at March 31, 2014 compared to $15.5 million at December 31, 2013 mainly attributable to signing new long term leases and migrating existing tenants to long term leases. However, the Company continues to face a competitive leasing environment which may adversely impact its ability to continue growing its lease commitments.

LIMITED PARTNERSHIP INVESTMENT

The Company has maintained an interest in the Grove, which originally represented a 20% limited partnership interest in the Grove. The Grove owns a 3,700+ acre citrus grove located in Palm Beach County, Florida (the "Grove Property"), which is the subject of a plan for mixed use development. Based on four subsequent capital raises through 2009, each of which the Company chose not to participate in, the Company’s share was diluted to approximately 9.99% as of December 31, 2010, and has since been diluted to 9.32%. On March 18, 2011, the Grove’s lender, Prudential Industrial Properties, LLC ("Prudential"), commenced a foreclosure action against the Grove by filing a complaint in the Circuit Court of Palm Beach County to foreclose upon the Grove property, alleging that the Grove has defaulted on its loan from Prudential and that the Grove is indebted to Prudential in the amount of over $37 million in principal and over $8 million in interest and fees. On September 19, 2013, the Grove was sold, the foreclosure lawsuit was dismissed and Grove’s debt to Prudential was repaid. The investment is held in a taxable REIT subsidiary of the Company with $0 value and the Company has a $1,315,000 deferred tax liability related to the Grove, which represents taxable losses not yet recorded pursuant to the equity method of accounting. Gyrodyne did not receive any distribution in connection with the sale. Under the agreement with the purchaser, Grove may receive certain additional payments if certain development benchmarks are achieved by the purchaser. Gyrodyne cannot

predict whether these benchmarks will be achieved or

as to the timing or amount of any further distributions by Grove. Gyrodyne may be required to recognize gain in 2014 and its deferred tax liability of $1,315,000.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

	Payment due by period				
Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term debt obligations	$-	-	-	-	-
Operating lease obligations	$12,464	$2,933	$5,866	$3,665	-
Total	$12,464	$2,933	$5,866	$3,665	-

Non-GAAP Supplemental Financial Measure: Funds from Operations ("FFO")

The Company calculates FFO in accordance with the White Paper on FFO approved by the Board of Governors of National Association of Real Estate Investment Trusts ("NAREIT"). The White Paper defines FFO as Net Income or loss calculated in accordance with GAAP, excluding extraordinary items , as defined by GAAP, and gains and losses attributable to the sale of depreciable operating property, plus real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures.

We believe that FFO is a useful supplemental measure of our operating performance. The exclusion of gains and losses on the sale of real estate allows investors and analysts to identify the operating results of the assets that reflect the core of our activity and assists in comparing the results of that activity across reporting periods. Additionally, FFO is the recognized industry standard for reporting the operations of a REIT. As a result, providing FFO facilitates comparison of operating performance with other REITs.

Historical cost accounting under GAAP measures implies that real estate asset values diminish over time. Since real estate assets have historically risen or fallen with market conditions, many investors and analysts consider presentation of operating results utilizing a historical cost accounting alone to be insufficient. Because FFO excludes depreciation and amortization of real estate assets, we believe reporting FFO along with the required GAAP presentation provides a more complete measurement of our performance relative to our competitors. However, our FFO includes a material cost for condemnation litigation which other REITs may not incur. Condemnation is not an extraordinary item as defined by GAAP; therefore such costs were included in the computation of FFO. We disclose separately under Item 6 (Selected Financial Data) and in the Statement of Operations, our condemnation costs to enable the investors and analysts to compute the impact of condemnation on FFO.

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 capital expenditures and capitalized leasing costs necessary to maintain the operating performance of our properties. Such capital expenditures are significant economic costs and can materially impact results of operations and net cash flow provided or used between reporting periods.

Noncash adjustments to arrive at FFO included depreciation and amortization and the tax benefit under Section 1033 of the Internal Revenue Code. The tax benefit is from the rollover of the advance payment from condemnation of 245 acres. Under the definition of FFO, gain or loss from property transactions are excluded from FFO. There were no other NAREIT defined FFO adjustments contained in the operating results.

We also present Company adjusted FFO ("AFFO"), which adjusts FFO for certain items which we believe are non-recurring and not indicative of the operating results of our real estate portfolio. We believe this is an appropriate presentation as it is frequently requested by security analysts, investors and other interested parties. Since others do not calculate funds from operations in a similar fashion, AFFO may not be comparable to similarly titled measures as reported by others. FFO and AFFO should not be considered as an alternative to net income as an indicator of our operating performance or as an alternative to cash flow as a measure of liquidity. The adjustments to FFO include condemnation costs in years where no income was recognized due to the contingency of the event, early debt prepayment penalties, fees and related costs inclusive of any write-off of loan origination fees, fees / costs related to the pursuit of strategic alternatives, restructuring fees which were not incurred in the comparative periods, 2008 through 2013, as well as distributions triggered under the Company’s Incentive Compensation Plan.

The following table provides the reconciliation of net income to FFO and AFFO for the periods ended March 31, 2014 and 2013, respectively:

	Three Months Ended	
	March 31,	
	2014	2013
Net Loss	$(671,658)	$(882,777)
Depreciation and amortization	240,893	232,353
Amortization of capitalized leasing costs	20,777	17,070
Funds from Operations ("FFO")	$(409,988)	$(633,354)
Company adjustments to FFO		
Restructuring costs	-	64,237
Costs to pursue strategic alternatives	337,742	341,361
Condemnation costs	-	2,360
Debt prepayment penalties and related costs	-	244,999
Dividend Note Interest	134,538	-
Amortization of dividend note costs	1,642	-
Company adjusted Funds from Operations ("AFFO")	$63,934	$19,603
Per share amounts – basic and diluted		
Net loss	$(0.45)	$(0.60)
Funds from operations	$(0.28)	$(0.43)
Company adjusted funds from operations	$0.04	$0.01

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company places its temporary cash investments with high credit quality financial institutions. Certain financial instruments could potentially subject the Company to concentrations of credit risk, such as cash equivalents and longer-term investments. The Company maintains bank account balances, which exceed FDIC insurance 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 March 31, 2014. As of March 31, 2014, the Company’s investment is in conforming agency fixed rate mortgage pass through securities ("mortgage-backed securities"), having either AA or AAA ratings, the principal of which is fully guaranteed by agencies of the U.S. Government.

The Company believes there have been no significant changes in market risk from that disclosed in the Company's Report on Form 10-K for the twelve months ended December 31, 2013.

Item 4. Controls and Procedures.

The Company’s management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), 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 March 31, 2014. Based upon that evaluation, the Company’s CEO and CFO 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 or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that information is accumulated and communicated to the Company’s management, including the CEO and CFO, to allow timely decisions regarding required disclosure. It should be noted that design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions regardless of how remote.

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Gyrodyne Company of America, Inc. v. The State of New York

In July 2012, the Company received $167,530,657 from the State of New York (the "State") in payment of the judgments in the Company’s favor in the Company's condemnation litigation with the State, which consisted of $98,685,000 in additional damages (the "2012 proceeds"), $1,474,941 for the Company’s costs, disbursements and expenses, and $67,370,716 in interest. Subsequent to receiving the payment the Company was notified by the State of a $29,000 overpayment, which the Company returned, due to an error in the interest calculation by the State of New York.

The $167,530,657 million payment concluded the Company’s case commenced in 2006 for just compensation for the 245.5 acres of its Flowerfield property in St. James and Stony Brook, New York (the "Property") taken by the State. The State had paid the Company $26,315,000 for the Property in March 2006, which the Company elected, under New York’s eminent domain law, to treat as an advance payment while it pursued its claim for just compensation. The Court of Claims ruled in the Company’s favor in June 2010 when it awarded the Company $125,000,000, thereby requiring the State to pay an additional $98,685,000 plus statutory interest of nine percent from the date of taking on November 2, 2005 to the date of payment. That Judgment, as well as a related Judgment for costs, disbursements and expenses, was affirmed by the Appellate Division of the Supreme Court of the State of New York for the Second Judicial Department and subsequently by the New York State Court of Appeals.

The Company recorded income of $167,425,729 including interest through June 30, 2012 in the quarter then ended and recorded the balance of the interest earned through July 3, 2012 of $104,928 in the financial statements for the third quarter ended September 30, 2012. Following notification from the State, the Company returned $29,000 due to an error in the original interest calculation and remittance which was prepared by New York State.

In addition to the foregoing, 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 that any loss resulting from such proceedings individually or in the aggregate will not be material to the Company’s financial condition or results of operations.

Items 2 through 5 are not applicable to the Company in the three months ended March 31, 2014.

Item 6. Exhibits.

3.1	Restated Certificate of Incorporation of Gyrodyne Company of America, Inc. (1)
3.2	Amended and Restated Bylaws of Gyrodyne Company of America, Inc. (2)
4.1	Form of Stock Certificate of Gyrodyne Company of America, Inc. (3)
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 Rights Certificate and of Election to Purchase. (4)
10.1	Amendment Number 1 dated as of January 31, 2013 to the Engagement Agreement dated as of August 8, 2012 between the Company and Rothschild Inc. (5)
10.2	Indemnification Agreement with Directors. (5)
10.3	Indemnification Agreement with Officers (5)
10.4	Employment Agreement with Frederick C. Braun III dated May 15, 2013. (6)
10.5	Employment Agreement with Gary Fitlin dated May 15, 2013. (6)
10.6	Employment Agreement with Peter Pitsiokos dated May 8, 2014. (8)
10.7	Amendment to Engagement Letter with Rothschild Inc. (7)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. (8)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. (8)
32.1	

CEO Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (9)

32.2 CFO Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (9)

101.INS** XBRL Instance

101.SCH** XBRL Taxonomy Extension Schema

101.CAL** XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition

101.LAB** XBRL Taxonomy Extension Labels

101.PRE** XBRL Taxonomy Extension Presentation

(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 June 18, 2008.

(3) Incorporated herein by reference to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 13, 2008.

(4) Incorporated herein by reference to Form 8-K, filed with the Securities and Exchange Commission on August 13, 2004.

(5) Incorporated herein by reference to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 10, 2013

(6) Incorporated herein by reference to Form 8-K, filed with the Securities and Exchange Commission on May 17, 2013

(7) Incorporated herein by reference to Form 8-K, filed with the Securities and Exchange Commission on March 18, 2014.

(8) Filed as part of this report.

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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.

Date: May 12, 2014	/s/ Frederick C. Braun III By Frederick C. Braun III President and Chief Executive Officer
Date: May 12, 2014	/s/ Gary Fitlin By Gary Fitlin Chief Financial Officer and Treasurer

EXHIBIT INDEX

3.1	Restated Certificate of Incorporation of Gyrodyne Company of America, Inc. (1)
3.2	Amended and Restated Bylaws of Gyrodyne Company of America, Inc. (2)
4.1	Form of Stock Certificate of Gyrodyne Company of America, Inc. (3)
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 Rights Certificate and of Election to Purchase. (4)
10.1	Amendment Number 1 dated as of January 31, 2013 to the Engagement Agreement dated as of August 8, 2012 between the Company and Rothschild Inc. (5)
10.2	Indemnification Agreement with Directors. (5)
10.3	Indemnification Agreement with Officers (5)
10.4	Employment Agreement with Frederick C. Braun III dated May 15, 2013. (6)
10.5	Employment Agreement with Gary Fitlin dated May 15, 2013. (6)
10.6	Employment Agreement with Peter Pitsiokos dated May 8, 2014. (8)
10.7	Amendment to Engagement Letter with Rothschild Inc. (7)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer. (8)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer. (8)

32.1 CEO Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (9)

32.2 CFO Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (9)

101.INS** XBRL Instance

101.SCH** XBRL Taxonomy Extension Schema

101.CAL** XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition

101.LAB** XBRL Taxonomy Extension Labels

101.PRE** XBRL Taxonomy Extension Presentation

(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 June 18, 2008.

(3) Incorporated herein by reference to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 13, 2008.

(4) Incorporated herein by reference to Form 8-K, filed with the Securities and Exchange Commission on August 13, 2004.

(5) Incorporated herein by reference to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on May 10, 2013

(6) Incorporated herein by reference to Form 8-K, filed with the Securities and Exchange Commission on May 17, 2013

(7) Incorporated herein by reference to Form 8-K, filed with the Securities and Exchange Commission on March 18, 2014.

(8) Filed as part of this report.

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.