

GYRODYNE CO OF AMERICA INC  
Form 10-Q  
August 14, 2015

**FORM 10-Q**

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended June 30, 2015

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)

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

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

Indicate by check mark whether the registrant 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  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

Smaller reporting company

(Do not check if a 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

On August 13, 2015, 3,706,700 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 JUNE 30, 2015

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**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.****GYRODYNE COMPANY OF AMERICA, INC.****AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

<u>ASSETS</u>	June 30, 2015 (Unaudited)	December 31, 2014
<b>REAL ESTATE</b>		
Rental property:		
Land	\$ 1,733,693	\$ 1,733,693
Building and improvements	11,599,737	11,368,097
Machinery and equipment	344,733	344,733
	13,678,163	13,446,523
Less accumulated depreciation	5,049,861	4,887,339
	8,628,302	8,559,184
Land held for development:		
Land	558,466	558,466
Land development costs	2,016,630	1,958,395
	2,575,096	2,516,861
Total real estate, net	11,203,398	11,076,045
Assets held for sale	21,968,095	22,189,950
Cash and cash equivalents	8,012,484	4,028,337
Investment in marketable securities	5,448,788	5,950,098
Rent receivable, net of allowance for doubtful accounts of approximately \$53,000 and \$81,000, respectively	22,149	2,782
Deferred rent receivable	64,585	53,140
Prepaid expenses and other assets	530,292	576,012
Total Assets	\$47,249,791	\$43,876,364
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$529,591	\$724,641
Accrued liabilities	256,245	220,573
Deferred rent liability	82,192	16,673
Tenant security deposits payable	249,428	246,702
Liabilities related to assets held for sale	296,045	374,408
Income taxes payable	57,500	750,000

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Pension costs	1,936,214	552,546
Notes payable	17,936,960	17,533,210
Total Liabilities	21,344,175	20,418,753
Commitments and contingencies		
EQUITY:		
Common stock, \$1 par value; authorized 4,000,000 shares; 3,947,908 and 1,723,888 shares issued at June 30, 2015 and December 31, 2014, respectively; 3,706,700 and 1,482,680 shares outstanding at June 30, 2015 and December 31, 2014, respectively	3,947,908	1,723,888
Additional paid-in capital	21,153,809	17,753,505
Accumulated other comprehensive loss	(2,199,424 )	(633,682 )
Deficit	(9,791,842 )	(9,653,951 )
	13,110,451	9,189,760
Less cost of shares of common stock held in treasury; 241,208	(1,537,697 )	(1,537,697 )
Total Gyrodyne Stockholders' Equity	11,572,754	7,652,063
Non-controlling interest in GSD, LLC	14,332,862	15,805,548
Total equity	25,905,616	23,457,611
Total Liabilities and Equity	\$47,249,791	\$43,876,364

**See notes to condensed consolidated financial statements**

**GYRODYNE COMPANY OF AMERICA, INC.****AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(UNAUDITED)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2015	2014	2015	2014
Revenues				
Rental income	\$ 1,128,484	\$ 1,184,742	\$ 565,505	\$ 572,783
Rental income - tenant reimbursements	150,239	178,862	57,848	62,216
Total	1,278,723	1,363,604	623,353	634,999
Expenses				
Rental expenses	783,568	766,122	368,825	345,525
General and administrative expenses	1,265,500	1,150,366	621,991	579,616
Strategic alternative expenses	505,933	872,541	306,058	534,799
Depreciation	162,523	161,999	82,582	80,787
Impairment charges	-	200,000	-	200,000
Insurance claim recoveries in excess of costs	(7,459 )	-	(7,459 )	-
Total	2,710,065	3,151,028	1,371,997	1,740,727
Other Income (Expense):				
Interest income	59,185	45,924	28,651	22,092
Interest expense	(439,171 )	(336,346 )	(220,006 )	(201,808 )
Total	(379,986 )	(290,422 )	(191,355 )	(179,716 )
Net Loss before Provision for Income Taxes	(1,811,328)	(2,077,846)	(939,999 )	(1,285,444)
Provision for Income Taxes	70,500	-	48,400	-
Net loss from continuing operations	(1,881,828)	(2,077,846)	(988,399 )	(1,285,444)
Discontinued Operations				
Income from discontinued operations attributable to Gyrodyne	-	-	-	-
Income from discontinued operations attributable to non-controlling interest	271,251	255,920	142,339	135,176
Net loss	(1,610,577)	(1,821,926)	(846,060 )	(1,150,268)
Net loss from Non-Controlling Interest in GSD, LLC	(1,472,686)	(1,780,113)	(771,094 )	(1,096,383)
Net loss Attributable to Gyrodyne	\$(137,891 )	\$(41,813 )	\$(74,966 )	\$(53,885 )
Net loss attributable to Gyrodyne per common share:				
From continuing operations	\$(0.09 )	\$(0.03 )	\$(0.05 )	\$(0.04 )
From discontinued operations	0.00	0.00	0.00	0.00
Total loss - Basic and diluted	\$(0.09 )	\$(0.03 )	\$(0.05 )	\$(0.04 )

Weighted average number of common shares outstanding:

Basic and diluted	1,531,830	1,482,680	1,580,439	1,482,680
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**See notes to condensed consolidated financial statements**



**GYRODYNE COMPANY OF AMERICA, INC.****AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)**

(UNAUDITED)

	Six Months Ended June		Three Months Ended	
	30,		June 30,	
	2015	2014	2015	2014
Net loss attributable to Gyrodyne	\$(137,891 )	\$(41,813 )	\$(74,966 )	\$(53,885 )
Unrealized (loss) gain on investments	(48,497 )	58,318	(89,600 )	28,335
Unrecognized actuarial pension loss	(1,517,245)	-	(1,517,245)	-
Other comprehensive (loss) gain attributable to Gyrodyne	(1,565,742)	58,318	(1,606,845)	28,335
Comprehensive (loss) income attributable to Gyrodyne	(1,703,633)	16,505	(1,681,811)	(25,550 )
Comprehensive loss attributable to non-controlling interest	(1,472,686)	(1,780,113)	(771,094 )	(1,096,383)
Comprehensive loss	\$(3,176,319)	\$(1,763,608)	\$(2,452,905)	\$(1,121,933)

**See notes to condensed consolidated financial statements**

**GYRODYNE COMPANY OF AMERICA, INC.****AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(UNAUDITED)

	Six Months Ended	
	June 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(1,610,577)	\$(1,821,926 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	502,673	482,553
Impairment charges	-	200,000
Bad debt (recovery) expense	(10,000 )	39,000
Net periodic pension cost	49,923	14,937
Noncash interest expense	403,750	302,813
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Rent receivable	(10,071 )	(35,547 )
Deferred rent receivable	(62,855 )	(65,584 )
Prepaid expenses and other assets	6,840	(83,934 )
(Decrease) increase in liabilities:		
Accounts payable	(223,887 )	(892,940 )
Accrued liabilities	35,672	(2,964,739 )
Income taxes payable	(692,500 )	-
Deferred rent liability	30,586	(29,838 )
Tenant security deposits payable	(11,867 )	1,784
Pension cost liability	(183,500 )	-
Total adjustments	(165,236 )	(3,031,495 )
Net cash used in operating activities	(1,775,813)	(4,853,421 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of building improvements and equipment	(258,942 )	(509,986 )
Land development costs	(58,235 )	(74,149 )
Purchase of marketable securities	-	(1,491,900 )
Principal repayments of investments in marketable securities	452,813	227,612
Net cash provided by (used in) investing activities	135,636	(1,848,423 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common shares, net	5,624,324	-
Net cash provided by financing activities	5,624,324	-
Net increase (decrease) in cash and cash equivalents	3,984,147	(6,701,844 )

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Cash and cash equivalents at beginning of period	4,028,337	13,048,827
Cash and cash equivalents at end of period	\$8,012,484	\$6,346,983

**Supplemental cash flow information:**

Income and excise taxes paid	\$763,000	\$133,000
Interest paid	\$33,294	\$-

**Noncash Investing and Financing Activities:**

Issuance of note to settle PIK interest	\$403,750	\$302,813
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**See notes to condensed consolidated financial statements**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

**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 (through GSD’s subsidiaries) in the Company’s four real estate properties, subject to related mortgage debt in favor of Flowerfield Mortgage Inc. (“FMI”), also a subsidiary of the Company, with Flowerfield Properties, Inc. (“FPI”), 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, taxable REIT subsidiary (“TRS”), FPI and GSD, and “the Company’s properties” or “GSD’s properties”, or “TRS’s properties”, or “FPI’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 FMI or payment of management fees or result in capital needs at GSD that might require additional capital from the Company, 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 June 30, 2015, the Company had an investment in three separate mortgages due from GSD aggregating \$12,399,645 and a receivable under a revolving line of credit of \$6,240,397. The mortgages and revolving line of credit contain a 5% effective rate and both principal and interest are eliminated in consolidation. The mortgages contain a first lien on the medical parks related real estate owned by GSD. Additionally, the Company, through FPI owns a 10.12% 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 (the “Grove Property”). For further information see Footnote 18.

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 through FPI has been managing GSD, initially pursuant to the terms of GSD's limited liability company agreement (the "GSD Agreement") which names the Company as the managing member. The GSD Agreement provides that the managing member 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 while 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 cost-plus based management fee to be charged by the Company through FPI to GSD (see Footnote 5 for additional detail on the methodology of the cost plus mark-up), which percentage falls in the lower quartile of similar fees charged by comparable companies according to a benchmarking study. Pursuant to the GSD Agreement, the Company was obligated to provide an initial liquidity facility to GSD in an amount not to exceed \$2.5 million. The board of directors has since authorized an increase in the revolving line of credit to \$7.0 million. The interest on the debt facilities payable by GSD to the Company 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 managed by and payable to its taxable REIT subsidiary, FPI.

The Company, through its managing member control of GSD (albeit 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 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 owning 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. The Company is the sole managing member of GSD with managerial authority and investment/disposition authority. FMI is a lender subsidiary wholly owned by the Company with three loan assets secured by property held in the property owner subsidiaries.

## **2. 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 of director's recommendation that the shareholders vote in favor of a plan of merger in which the Company and GSD would merge with and into Gyrodyne, LLC. The Company received comments from the SEC on November 18, 2013. Consequently, the Company proceeded with holding its 2013 annual meeting without seeking authorization for the merger transaction at that time because of NASDAQ rules requiring listed companies to hold an annual meeting not later than twelve months following the fiscal year end. On May 8, 2014, the Company responded to such comments and filed a revised preliminary proxy statement with the SEC. The Company received comments from the SEC on May 29, 2014 and responded to such comments and filed a revised proxy statement (Amendment No. 2) with the SEC on June 17, 2014. The Company received comments from the SEC on June 24, 2014 and responded to such comments and filed a revised proxy statement (Amendment No. 3) with the SEC on June 26, 2014. The Company received comments from the SEC on June 26, 2014 and responded to such comments and filed a definitive proxy statement (Amendment No. 4) with the SEC on July 1, 2014. On June 5, 2014, the Company announced that a special meeting of shareholders of Gyrodyne Company of America, Inc., would be held at Flowerfield Celebrations, Mills Pond Road, Saint James, New York 11780 on August 14, 2014, at 11:00 a.m., Eastern Time. At the special meeting, the Company was asking the shareholders of record on June 30, 2014 to authorize a plan of merger and the transactions contemplated thereby, including the merger of the Company and GSD with and into Gyrodyne, LLC, a subsidiary of the Company. Shareholders of record at the close of business on June 30, 2014, were entitled to vote at the special meeting or its adjournment or postponement, if any, provided such meeting takes place by August 30, 2014. On August 25, 2014, the Company announced the postponement of the special meeting. The Company rescheduled the special meeting to December 5, 2014 to allow additional time for shareholders to vote on the proposed merger and changed the shareholder record date to October 31, 2014. The Company had been advised by its proxy solicitor, MacKenzie Partners, that with approximately 45% of the outstanding shares voted by delivery of proxy cards, approximately 97% of such shares have been voted in favor of the merger. Despite the overwhelming percentage of received votes in favor of the merger not enough shares were

voted to reach the two-thirds of the outstanding share majority needed under New York law. Accordingly, on November 4, 2014, the Company announced a further postponement of the special meeting until the middle of 2015. Given the small size of holdings of many Gyrodyne shareholders and the nature of various holders, the Company believes many holders may not have paid enough attention to the merger to exercise their right to vote. The Company and its advisors continue to analyze potential options in the best interests of the Company and its shareholders, which may include enhancements designed to facilitate the ability to complete the merger transaction. As further discussed below, on March 6, 2015, the Company filed a registration statement on Form S-1 with the SEC for a rights offering to Gyrodyne's existing shareholders. On April 10, 2015 and May 15, 2015, the Company filed amendments to the registration statement to replace the financial statements and related financial information in the original filing with updated financial statements as of and for the year ended December 31, 2014 and as of and for the quarter ended March 31, 2015, respectively and other updated financial information related thereto. Gyrodyne conducted the rights offering to facilitate the vote of two-thirds of the outstanding shares needed under New York law to approve the previously-announced proposed merger, as well as raise equity capital in a timely and cost-effective manner while providing all of Gyrodyne's shareholders the opportunity to participate. On June 22, the Company announced the results of the rights offering which expired at 5:00 pm NYC time on June 17, 2015. The Company also announced on June 22, 2015 that its previously postponed special meeting of shareholders at which shareholders will be asked to authorize the previously announced merger of the Company and GSD with and into Gyrodyne LLC will be held on August 20, 2015. The Board of Directors established the close of business on June 29, 2015 as the record date for determining shareholders entitled to receive notice of and vote at the special meeting, which will begin at 11:00 a.m. eastern time and take place at Flowerfield Celebrations, Mills Pond Road, St James, NY 11780. On July 1, 2015 the Company filed a supplement to the proxy statement/prospectus dated July 1, 2014 to provide supplemental information to the proxy statement prospectus and should be read in conjunction with the proxy statement / prospectus.

**Rights Offering.** On March 6, 2015, the Company filed a registration statement on Form S-1 with the SEC for a rights offering to Gyrodyne's existing shareholders. On April 10, 2015 and May 15, 2015, the Company filed amendments to the registration statement to replace the financial statements and related financial information in the original filing of the Registration Statement with the updated financial statements as of and for the year ended December 31, 2014 and as of and for the quarter ended March 31, 2015, respectively, and other updated financial information related thereto. Our board of directors believes that the rights offering will facilitate the vote of two-thirds of the outstanding shares needed under New York law to approve the proposed merger. Given the small size of holdings of many Gyrodyne shareholders and the nature of various holders, we believe many holders may not have paid enough attention to the Merger to exercise their right to vote during attempts in 2014. The board of directors believes, however, that shareholders who exercise their subscription rights in the rights offering are more likely to vote their shares on the Merger proposal.

The Company also conducted the rights offering because it provided our shareholders the opportunity to participate in an offering of our shares on a pro rata basis without diluting their ownership interest in our Company. The proceeds of the rights offering will provide Gyrodyne with additional liquidity as we pursue an orderly liquidation of the properties currently owned by GSD and managed by Gyrodyne.

Gyrodyne affected the rights offering through the distribution of non-transferable subscription rights to purchase shares of Gyrodyne's common stock at \$2.75 per share subject to certain aggregate ownership limitations. In the rights offering, shareholders received three subscription rights for each two shares of common stock held of record on May 6, 2015, with each subscription right giving a shareholder the right to purchase one share of common stock. The rights offering also included an over-subscription privilege, which entitled each rights holder that exercised its basic subscription privilege in full, the right to purchase additional shares of common stock that remained unsubscribed at the expiration of the rights offering, subject to the availability and pro rata allocation of shares among persons exercising this over-subscription right. The rights offering did not contain an over-allotment option.

This report is not to be considered material to solicit proxies related to the special meeting or deemed an offer to sell the Gyrodyne, LLC equity interests ("Gyrodyne, LLC Shares"), which solicitation and offer will only be made through the definitive proxy statement/prospectus relating to the Merger and the issuance of the Gyrodyne, LLC Shares. Gyrodyne filed definitive proxy materials with the SEC on July 1, 2014 with respect to the plan of merger.

On April 27, 2015, the Company announced that it had set May 6, 2015 as the record date for its previously announced rights offering, and that the subscription price for the rights offering was \$2.75 per share. In the rights offering, Gyrodyne distributed, at no charge, to shareholders as of the record date non-transferable subscription rights to purchase, on a three-for-two basis, up to an aggregate of 2,224,020 shares of Gyrodyne common stock.

On June 17, 2015, the Company closed the rights offering and on June 22, 2015 the Company announced that it received subscriptions for approximately 7,044,894 shares, greatly exceeding the maximum shares offered of



2,224,020. Shareholders were allocated 100% of their basic subscriptions. Based on the maximum 2,224,020 shares that were issuable in the rights offering, 1,214,644 shares were allocated to shareholders who properly exercised their oversubscription privilege, pro rata in proportion to the aggregate number of shares subscribed for under the over-subscription privilege, or 20.12499% of each oversubscriber's requested shares. The rights offering resulted in 2,224,020 common shares issued on June 26, 2015 and net proceeds received (after expenses) of \$5,624,324 (Gross proceeds of \$6,116,055 less direct expenses of the rights offering of \$491,731).

***Merger Allocation Adjustments.*** The Plan of Merger originally provided for an allocation of Gyrodyne LLC Shares to be issued in the Merger of 15.2% to Gyrodyne shareholders, 29.2% to the holders of the Dividend Notes and 55.6% to the holders of common shares of GSD (collectively, the "Initial Allocations"). The Plan of Merger as revised by the December 2013 amendment provides that each of the Initial Allocations set forth therein of Gyrodyne LLC Shares to be issued in the Merger in exchange for Gyrodyne common shares, GSD Interests and interests in the Dividend Note are subject to adjustment in the discretion of the Gyrodyne board of directors. The Plan of Merger provides that any changes made to the Initial Allocations will be announced at least ten days prior to the meeting of shareholders at which shareholders of Gyrodyne will be asked to consider and vote upon the Plan of Merger.

At a board of directors meeting held on April 24, 2015, our directors determined to adjust the allocation of common shares of Gyrodyne, LLC to be issued pursuant to the Merger to account for certain developments since such allocations were originally set in December 2013. The common shares of Gyrodyne, LLC to be issued in the Merger will be allocated as follows:

Approximately 22.6% in the aggregate to Gyrodyne shareholders;

Approximately 30.0% in the aggregate to holders of interests in dividend notes issued by Gyrodyne in the aggregate principal amount of \$17,937,000 (the "Dividend Notes"); and

Approximately 47.4% in the aggregate to holders of common shares of GSD.

Gyrodyne's board of directors determined the foregoing allocation adjustments based on the increase in the adjusted net book value of Gyrodyne shares due to the rights offering and the anticipated net proceeds to Gyrodyne of \$5,606,000 from the rights offering (actual net proceeds was \$5,624,324), assuming all 2,224,020 shares were sold. In addition, the allocations reflect adjusted net book value, face value and "fair value" (based on appraised values of underlying properties owned by GSD, less liabilities) of Gyrodyne, the Dividend Notes and GSD, respectively, in each case as of December 31, 2014. This methodology is consistent with the valuation metrics used to determine the original allocations in December, 2013. On June 17, 2015, we completed the Rights Offering wherein we issued 2,224,020 shares at \$2.75 per share and received the net proceeds of \$5,624,324 (Gross proceeds of \$6,116,055 less direct expenses of the Rights offering of \$491,731).

### **3. Significant accounting policies:**

The below disclosures are an excerpt and part of the significant accounting policies disclosed on Form 10-K for the year ended December 31, 2014, all of which remain applicable to the Company.

**Revenue recognition** – Base rents from rental properties are recognized on a straight-line basis over the terms of the related leases. The excess of rents recognized over amounts contractually due, if any, are included in deferred rents receivable on the Company's balance sheets. 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, other operating expenses and real estate taxes all of which are reported in tenant reimbursements on the consolidated statements of operations. Ancillary and other property related income is recognized in the period earned.

**Gains on sales of real estate** - Gains on sales of real estate are recognized based upon the specific timing of the sale as measured against various criteria related to the terms of the transactions and any continuing involvement associated with the properties. If the sales criteria are not met, the gain is deferred and the finance, installment or cost recovery method, as appropriate, is applied until the sales criteria are met. To the extent the GSD sells a property and retains a partial ownership interest in the property, the Company recognizes gain to the extent of the third-party ownership interest.

**Assets Held For Sale and Discontinued Operations**- Assets and liabilities of properties that meet various held for sale criteria, including whether it is probable that a sale will occur within 12 months, are presented separately in the Condensed Consolidated Balance Sheets as “Assets held for Sale”, with assets and liabilities being separately stated. The operating results of these properties are reflected as discontinued operations in the Condensed Consolidated Statements of Operations. Properties classified as held for sale are carried at the lower of net carrying value or estimated fair value less costs to sell and depreciation and amortization are no longer recognized. Properties that do not meet the held for sale criteria are accounted for as operating properties.

#### **4. 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 and six-month periods ended June 30, 2015 and 2014.

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, 2014 and with the definitive proxy statement/prospectus filed with the SEC on July 1, 2014, the supplement, dated July 1, 2015, to the proxy statement/prospectus dated July 1, 2014 and the S-1/A filed with the SEC on May 15, 2015.

The results of operations for the six-month period ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year.

## **5. Principles of Consolidation:**

The accompanying condensed 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 activities of GSD 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. GSD owns all of the real estate that was previously owned by the Company prior to the distribution of ownership interests in GSD to the Company's shareholders on December 30, 2013. GSD owes mortgage obligations payable to a wholly owned subsidiary of the Company of \$12,399,645 and \$12,889,463 as of June 30, 2015 and December 31, 2014, 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 30, 2013. At June 30, 2015 and December 31, 2014, the net book value of GSD was \$14,332,862 and \$15,805,548, respectively. GSD is essentially being managed and operated by the Company, through FPI, where the Company is the primary obligor for liabilities incurred on behalf of GSD. As a result, the Company could be held liable for current and future obligations of GSD, and in turn it would be the Company's obligation to seek reimbursement from GSD.

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 June 30, 2015. 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 June 30, 2015.

### **Management Services Arrangements**

All references to Gyrodyne or the Company within the Management Services Arrangement and referenced below, refer to Flowerfield Properties, Inc. ("FPI").

Under GSD's Amended and Restated Limited Liability Company Agreement, Gyrodyne through FPI, in Gyrodyne's 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 was obligated to provide an initial liquidity facility to GSD in an amount not to exceed \$2.5 million. Subsequently, the board of directors has authorized increases in the revolving line of credit to \$7.0 million.

Taking into account a number of factors, including a management services benchmarking study commissioned by Gyrodyne Company of America, Inc., ("the Company"), the Company entered into a Management Services Agreement (the "Agreement") between the Company, and GSD, on December 24, 2014 pursuant to which the Company agreed to continue providing certain management services to GSD. Management services include acquisition and disposition services, asset management services, accounting and other administrative services, property management services and shareholder services.

Pursuant to the Agreement, in consideration for these services:

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 Retention Bonus Plan (See "*Interests of Our Directors and Executive Officers—Retention 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.

## **6. Consolidating Financial Information**

Our consolidated assets at June 30, 2015 and December 31, 2014 include total assets of \$33,665,518 and \$33,763,279, respectively, of a variable interest entity (VIE) that can only be used to settle liabilities of that VIE. These assets, prior to reclassifying applicable items to discontinued operations, include real estate of \$32,449,453 and \$32,634,949, deferred rent of \$397,769 and \$334,914, rent receivable of \$27,523 and \$7,452, and prepaid and other assets of \$790,773 and \$785,964, respectively. Our consolidated liabilities at June 30, 2015 and December 31, 2014, prior to reclassifying applicable items to discontinued operations, include liabilities of a VIE consisting of \$462,558 and \$474,425, respectively of tenant security deposits, accounts payable of \$104,733 and \$218,163, respectively, and deferred rent liability of \$125,323 and \$94,737, respectively. The VIE also has mortgages payable, prior to reclassifying applicable items to discontinued operations, to a wholly-owned subsidiary of Gyrodyne of \$12,399,645 and \$12,889,463, respectively and an outstanding balance in a revolving debt facility of \$6,240,397 and \$4,280,943 at June 30, 2015 and December 31, 2014, respectively, that are eliminated in consolidation.

Management fees and interest expense paid or payable by GSD is eliminated in consolidation. Management fees, excluding reimbursement of costs, paid or payable by GSD for the three and six-month period ending June 30, 2015 were \$92,275 and \$175,258, The Management fees, excluding reimbursement of costs, paid by GSD for the three and six months ended June 30, 2014 were \$ 100,394 and \$189,272 respectively. In addition, interest expense paid or payable by GSD to the Company on the outstanding mortgage and revolving line of credit for the three and six-month period ending June 30, 2015 was \$225,854 and \$443,858 respectively verses the three and six-months ending June 30, 2014 of \$189,585 and \$359,760 respectively.

The tables below are the unaudited consolidating June 30, 2015 Balance Sheet and Statement of Operations reflecting the operations of Gyrodyne Company of America, Inc. and subsidiaries and GSD.

ASSETS	<u>Gyrodyne Company of America, Inc. and Subsidiaries</u>	<u>GSD, LLC</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>REAL ESTATE</b>					
Rental property:					
Land	\$-	\$1,733,693	\$1,733,693	\$-	\$1,733,693
Building and improvements	-	11,599,737	11,599,737	-	11,599,737
Machinery and equipment	-	344,733	344,733	-	344,733
	-	13,678,163	13,678,163	-	13,678,163
Less accumulated depreciation	-	5,049,861	5,049,861	-	5,049,861
	-	8,628,302	8,628,302	-	8,628,302
Land held for development:					
Land	-	558,466	558,466	-	558,466
Land development costs	-	2,016,630	2,016,630	-	2,016,630
	-	2,575,096	2,575,096	-	2,575,096
Total real estate, net	-	11,203,398	11,203,398	-	11,203,398
Assets held for sale	-	21,968,095	21,968,095	-	21,968,095
Cash and cash equivalents	8,012,484	-	8,012,484	-	8,012,484
Investment in marketable securities	5,448,788	-	5,448,788	-	5,448,788
Rent receivable, net of allowance for doubtful accounts of approximately \$53,000	-	22,149	22,149	-	22,149
Deferred rent receivable	-	64,585	64,585	-	64,585
GSD Line of Credit	6,240,397	-	6,240,397	(6,240,397 )	-
Prepaid expenses and other assets	123,001	407,291	530,292	-	530,292
Mortgage receivable	12,399,645	-	12,399,645	(12,399,645)	-
Total Assets	\$32,224,315	\$33,665,518	\$65,889,833	\$(18,640,042)	\$47,249,791
<b>LIABILITIES AND EQUITY</b>					
<b>LIABILITIES:</b>					
Accounts payable	\$464,642	\$64,949	\$529,591	\$-	\$529,591
Accrued liabilities	256,245	-	256,245	-	256,245
Deferred rent liability	-	82,192	82,192	-	82,192
Tenant security deposits payable	-	249,428	249,428	-	249,428



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GSD Line of Credit	-	6,240,397	6,240,397	(6,240,397 )	-
Mortgage Payable	-	3,498,584	3,498,584	(3,498,584 )	-
Liabilities related to assets held for sale	-	9,197,106	9,197,106	(8,901,061 )	296,045
Income taxes payable	57,500	-	57,500	-	57,500
Pension costs	1,936,214	-	1,936,214	-	1,936,214
Notes payable	17,936,960	-	17,936,960	-	17,936,960
Total Liabilities	20,651,561	19,332,656	39,984,217	(18,640,042)	21,344,175

Commitments and contingencies

EQUITY:

Common stock, \$1 par value; authorized 4,000,000 shares; 3,947,908 shares issued; 3,706,700 shares outstanding	3,947,908	-	3,947,908	-	3,947,908
Additional paid-in capital	21,153,809	-	21,153,809	-	21,153,809
Accumulated other comprehensive loss	(2,199,424 )	-	(2,199,424 )	-	(2,199,424 )
Deficit	(9,791,842 )	(4,733,606 )	(14,525,448 )	4,733,606	(9,791,842 )
	13,110,451	(4,733,606 )	8,376,845	4,733,606	13,110,451
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	11,572,754	(4,733,606 )	6,839,148	4,733,606	11,572,754
Non-controlling interest in GSD, LLC	-	19,066,468	19,066,468	(4,733,606 )	14,332,862
Total equity	11,572,754	14,332,862	25,905,616	-	25,905,616
Total Liabilities and Equity	\$32,224,315	\$33,665,518	\$65,889,833	\$(18,640,042)	\$47,249,791

Consolidated Statement of Operations – Six Months Ended June 30, 2015

	Gyrodyne Company of America, Inc.	GSD, LLC	Total	Eliminations	Consolidated
Revenues					
Rental income	\$ -	\$ 1,128,484	\$ 1,128,484	\$ -	\$ 1,128,484
Rental income - tenant reimbursements	-	150,239	150,239	-	150,239
Other income	2,405,520	-	2,405,520	(2,405,520 )	-
Total	2,405,520				