GYRODYNE CO OF AMERICA INC
Form 10QSB
March 12, 2003

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

Form 10-QSB

(Mark One)

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

For the quarterly period ended JANUARY 31, 2003

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

For the transition period from ____________ to ____________

Commission file number 0-1684

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 1,117,062 Common $1 P.V. as of February 25, 2003

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QUARTER ENDED JANUARY 31, 2003

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

	January 31, 2003
ASSETS	
REAL ESTATE	
Rental property:	
Land	$ 4,250
Building and improvements	3,915,361
Machinery and equipment	153,906
	4,073,517
Less accumulated depreciation	3,248,717
	824,800
Land held for development:	
Land	792,201
Land development costs	2,167,799
	2,960,000

Total real estate, net	3,784,800
CASH AND CASH EQUIVALENTS	2,370,705
RENT RECEIVABLE, net of allowance for doubtful accounts of $40,862	48,462
MORTGAGE RECEIVABLE	1,800,000
PREPAID EXPENSES AND OTHER ASSETS	502,746
INVESTMENT IN CITRUS GROVE PARTNERSHIP	1,585,104
PREPAID PENSION COSTS	1,659,815
	$11,751,632
LIABILITIES AND STOCKHOLDERS' EQUITY	
LIABILITIES:	
Accounts payable and accrued expenses	$ 178,766
Tenant security deposits payable	238,120
Loans payable	688,802
Deferred income taxes	2,457,792
Deferred gain on sale of real estate	1,573,899
Total liabilities	5,137,379
STOCKHOLDERS' EQUITY:	
Common stock, $1 par value; authorized 4,000,000 shares; 1,531,086 shares issued and outstanding	1,531,086
Additional paid-in capital	7,278,191
Retained earnings	336,365
	9,145,642
Less cost of shares of common stock held in treasury	(2,531,389)
Total stockholders' equity	6,614,253
	$11,751,632

See notes to consolidated financial statements

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

	Nine Months Ended January 31,		Three Months Ended January 31,	
	2003	2002	2003	2002
REVENUE FROM RENTAL PROPERTY	$ 1,777,086	$1,959,974	$ 554,323	$ 632,396

RENTAL PROPERTY EXPENSES:				
Real estate taxes	246,783	316,274	47,169	109,044
Operating and maintenance	318,994	449,943	138,897	152,963
Interest expense	45,702	46,782	14,133	15,228
Depreciation	65,079	80,030	20,189	27,225
	676,558	893,029	220,388	304,460
INCOME FROM RENTAL PROPERTY	1,100,528	1,066,945	333,935	327,936
GENERAL AND ADMINISTRATIVE	1,129,238	894,412	420,060	337,223
(LOSS) INCOME FROM OPERATIONS	(28,710)	172,533	(86,125)	(9,287)
OTHER INCOME:				
Gain on sale of real estate	3,124,307	0	0	0
Gain on sale of equipment	0	6,500	0	0
Interest income	58,881	43,427	29,491	9,404
	3,183,188	49,927	29,491	9,404
INCOME (LOSS) BEFORE INCOME TAX	3,154,478	222,460	(56,634)	117
PROVISION (BENEFIT) FOR INCOME TAXES	1,261,791	93,984	(22,654)	47
NET INCOME (LOSS)	$ 1,892,687	$ 128,476	($ 33,980)	$ 70
NET INCOME (LOSS) PER COMMON SHARE:				
Basic	$ 1.70	$ 0.11	($ 0.03)	$ 0.00
Diluted	$ 1.69	$ 0.11	($ 0.03)	$ 0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	1,113,572	1,118,311	1,116,423	1,118,311
Diluted	1,122,962	1,128,145	1,116,423	1,123,639

See notes to consolidated financial statements

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

Nine Months Ended
January 31,

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 1,892,687	$ 128,476
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	77,772	88,973
Bad debt expense	2,545	9,000
Deferred income tax provision	1,261,792	88,984
Stock compensation	54,331	0
Pension expense	194,910	26,177
Gain on sale of equipment	0	(6,500)
Gain on sale of real estate	(3,124,307)	0
Changes in operating assets and liabilities:		
Increase in assets:		
Land development costs	(734,525)	(100,645)
Accounts receivable	(20,928)	(17,979)
Prepaid expenses and other assets	(376,773)	(113,344)
Prepaid pension costs	(186,473)	0
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(230,590)	(346,841)
Tenant security deposits	(15,758)	10,738
Total adjustments	(3,098,004)	(361,437)
Net cash used in operating activities	(1,205,317)	(232,961)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of real estate	2,523,625	0
Proceeds from sales of equipment	0	6,500
Acquisition of property, plant and equipment	(23,214)	(60,067)
Net cash provided by (used in) investment activities	2,500,411	(53,567)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of loans payable	(48,437)	(41,204)
Proceeds from exercise of stock options	18,258	0
Net cash used in financing activities	(30,179)	(41,204)
Net increase (decrease) in cash and cash equivalents	1,264,915	(327,732)
Cash and cash equivalents at beginning of period	1,105,790	2,688,838
Cash and cash equivalents at end of period	$ 2,370,705	$ 2,361,106
SUPPLEMENTAL SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES:		
Mortgage receivable	$ 1,800,000	$ 0
Deferred gain on sale of real estate	$ 1,573,899	$ 0

See notes to consolidated financial statements

FOOTNOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Quarterly Presentations:

The accompanying quarterly financial statements have been prepared in conformity with generally accepted accounting principles. The financial statements of the Registrant included herein have been prepared by the Registrant pursuant to the rules and regulations of the Securities and Exchange Commission and, in the opinion of management, reflect all adjustments which are necessary to present fairly the results for the three and nine month periods ended January 31, 2003, and 2002.

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

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

The results of operations for the three and nine month periods ended January 31, 2003, and 2002 are not necessarily indicative of the results to be expected for the full year.

2. Principle of Consolidation:

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

3. Earnings Per Share:

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

The following is a reconciliation of the weighted average shares:

	Nine months ended January 31,		Three Months Ended January 31,	
	2003	2002	2003	2002
Basic	1,113,572	1,118,311	1,116,423	1,118,311
Effect of dilutive securities	9,390	9,834	0	5,328
Diluted	1,122,962	1,128,145	1,116,423	1,123,639

4. Income Taxes:

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

5. Commitments:

Effective January 23, 2003, in an effort to provide for the stability of management during the development period of the Flowerfield property, the Company amended the existing employment contracts with Stephen V. Maroney as President, Chief Executive Officer, and Treasurer and with Peter Pitsiokos as Executive Vice President, Secretary, and General Counsel. The terms of the agreements were extended from one to three years and provide for a severance payment equivalent to three years salary in the event of a change in control.

6. Reclassification:

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

7. Cash Flow Supplemental Information:

During the nine months ended January 31, 2003, the Company incurred an installment obligation of $37,055 for the purchase of equipment.

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

(a) Not Applicable

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

Results for the third quarter ending January 31, 2003 reflect a net loss of $33,980 compared to a breakeven for the same period last year. Net income for the nine months then ended totaled $1,892,687 compared to $128,476 during the prior year.

Diluted per share earnings amounted to ($0.03) and $1.69 for the current three and nine month periods compared to $0.00 and $0.11 for the like periods last year.

Revenue from rental property declined for the reporting period, amounting to $554,323 and $1,777,086 for the current three and nine months then ended. These results compare to $632,396 and $1,959,974 for the same periods last year, respectively. The single most significant factor to this decline is the loss of rental income brought about by the sale of 12 acres of land and buildings related to the operation of a former tenant's catering facility. This sale and the foreseen loss of revenues were previously reported in the Company's October 31, 2002 filing. Revenues declined by $78,073 and $182,888 for the three and nine month reporting periods, respectively.

Expenses associated with the rental property operation also declined and as a result, overall profitability was not impaired. Expenses totaled $220,388 compared to $304,460 for the three months ending January 31, 2003 and 2002 and $676,558 compared to $893,029 for the nine months then ended, respectively. For the most part, the three month reduction of $84,072 was the product of reduced real estate taxes of $61,875 which are being capitalized in conjunction with our filed application to develop a residential golf course community. The remaining contributing factors are reductions in salaries and benefits of $22,172 and $7,036 in depreciation expenses. These savings were partially offset by increases and variations in a number of other items, the largest of which was an increase in roofing repairs amounting to $12,248.

The $216,471 reduction in the current nine month year to date expenses includes decreases of $69,491 in real estate taxes, $52,196 in salaries and benefits and a previously reported utility adjustment of $64,968. Various other items, the largest being a reduction in depreciation expense of $14,951, contributed to the balance of the variance between periods.

As a result, income from rental property operations improved moderately for both the current three and nine month reporting periods, totaling $333,935 and $1,100,528, respectively. These results compare to $327,936 and $1,066,945 for the same quarter and nine month periods of the prior year.

General and administrative expenses increased to $420,060 for the three month period ending January 31, 2003 as compared to the $337,223 posted for the same quarter of the prior year. For the nine months ending January 31, 2003, these expenses totaled $1,129,238 compared to $894,412 the prior year. Salaries and benefits increased by $16,476 and $77,865 for the three and nine month periods, respectively. The nine month results included a $54,331 stock option expense as previously reported. Additionally, the expense of conducting two annual meetings and the related costs of corporate governance matters are reflected in an increase of $49,748 and $93,498 for the three and nine month periods, respectively. Pension expense continued to reflect the previously reported and significant increases which amounted to $56,243 and $168,729 for the three and nine months ending January 31, 2003. Various other expenses were reduced for the period. Among the most significant reductions for the three months ending January 31, 2003 were $42,085 in legal and consulting expenses. For the nine month reporting period the Company experienced reductions of $89,652 in legal and consulting fees, $18,599 in directors fees, and $16,820 in other fees for outside services.

Reflecting the foregoing, the Company experienced a loss from operations of $86,125 and $28,710 for the three and nine months ending January 31, 2003 compared to a loss of $9,287 for the same quarter last year and income from operations of $172,533 for the nine month period of the prior year.

Other income for the quarter ending January 31, 2003 totaled $29,491 and includes $22,500 of interest on the catering facility mortgage; the balance being income from our interest bearing deposits. Prior year results total $9,404 and represents income from interest bearing deposits only. For the nine months ending January 31, 2003, other income totaled $3,183,188 and includes partial proceeds of

$3,124,307 from the catering facility sale and interest income of $58,881, $43,250 of which is from the mortgage receivable. For the prior year nine month period, other income totaled $49,927.

At January 31, 2003, the Company had cash and cash equivalents totaling $2,370,705 and anticipates having the capacity to fund normal and administrative expenses and its regular debt service requirements. At statement date, working capital amounted to $2,378,048. For the three month period ending January 31, 2003, capitalized expenses related to the development of the residential golf course community on the Company's 314 acre Flowerfield property amounted to $181,936.

The results of operations for both the three and nine month periods ending January 31, 2003, are not necessarily indicative of, nor should they be used to project, full year or future results.

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

Part II Other Information

Items 1, 2 and 3 are not applicable to the November 1, 2002, through January 31, 2003, period.

Item 4 Submission of Matters to a Vote of Security Holders

The Company's annual shareholder meeting for Fiscal Year 2002 was held on January 23, 2003. On each matter submitted to shareholders, the votes were as follows:

To elect one Director, Richard B. Smith, to serve for a term of one year and two directors, Robert F. Friemann and Robert H. Beyer, to serve for a term of three years or until their successors shall be elected and shall qualify: Richard B. Smith; votes for 804,740, votes withheld 181,587; Robert F. Friemann; votes for 807,130, votes withheld 179,197; Robert H. Beyer; votes for 808,760, votes withheld 177,567.

Messrs. Lamb, Maroney, and Palmedo continue to serve as Directors in accordance with their terms of office.

To ratify the engagement of Holtz, Rubenstein & Co., LLP as certified public accountants and auditors for the fiscal year ending April 30, 2003; votes for 890,498, votes against 94,348, votes abstain 1,481.

Item 5 Other information

Effective January 23, 2003, in an effort to provide for the stability of management during the development period of the Flowerfield property, the Company amended the existing employment contracts with Stephen V. Maroney as President, Chief Executive Officer, and Treasurer and with Peter Pitsiokos as Executive Vice President, Secretary, and General Counsel. The terms of the agreements were extended from one to three years and provide for a severance payment equivalent to three years salary in the event of a change in control. See Exhibit 10 Material Contracts.

Item 6 Exhibits and Reports on Form 8-K

(a) Exhibit 10 Material Contracts.

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

(b) Reports on Form 8-K - One Form 8-K was filed by the Company for the third quarter of FY 2003. On November 27, 2002, the Company filed a Form 8-K reporting an increase in the number of directors from five to six and appointing Richard B. Smith as its sixth director. In addition, the Record Date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting was set as well as the Date for the Annual Meeting of Shareholders. The Board also announced the three nominees for director.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GYRODYNE COMPANY OF AMERICA, INC.
(Registrant)

Date: March 12, 2003 /S/ Stephen V. Maroney

Stephen V. Maroney
President, Chief Executive Officer and Treasurer

Date: March 12, 2003 /S/ Frank D'Alessandro

Frank D'Alessandro
Controller

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CERTIFICATION

I, Stephen V. Maroney, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Gyrodyne Company of America, Inc. (the "Company");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's certifying officer is responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. Based on the most recent evaluation, the registrant's certifying officer is also responsible to disclose, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. I have indicated in this quarterly report if there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of the most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 12, 2003

/S/ Stephen V. Maroney

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