GYRODYNE CO OF AMERICA INC
Form 10-Q
August 08, 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 ______June 30, 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 August 8, 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 JUNE 30, 2014

2

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.
GYRODYNE COMPANY OF AMERICA, INC.

AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
REAL ESTATE		
Rental property:		
Land	$1,733,693	$1,785,293
Building and improvements	11,175,728	11,205,934
Machinery and equipment	344,733	344,733
	13,254,154	13,335,960
Less accumulated depreciation	4,725,234	4,557,615
	8,528,920	8,778,345
Land held for development:		
Land	558,466	558,466
Land development costs	1,895,046	1,823,847
	2,453,512	2,382,313
Total real estate, net	10,982,432	11,160,658
Assets held for sale	22,320,755	22,024,321
Cash and cash equivalents	6,346,983	13,048,827
Investment in marketable securities	4,703,470	3,380,864
Rent receivable, net of allowance for doubtful accounts of approximately $98,000 and $74,000, respectively	58,024	82,663
Deferred rent receivable	51,366	57,369
Prepaid expenses and other assets	578,360	618,279
Prepaid pension costs	593,870	608,807
Total Assets	$45,635,260	$50,981,788
LIABILITIES AND EQUITY		
LIABILITIES:		
Accounts payable	$696,921	$1,603,279
Accrued liabilities	281,664	3,246,403
Deferred rent liability	36,474	21,387
Tenant security deposits payable	268,790	271,658
Liabilities related to assets held for sale	355,111	381,966
Deferred income taxes	1,315,000	1,315,000
Notes payable	16,447,427	16,144,614
Total Liabilities	19,401,387	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 income	177,107	118,789
Deficit	(9,161,284)	(9,119,471)
	10,493,216	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	8,955,519	8,939,014
Non-controlling interest in GSD, LLC	17,278,354	19,058,467
Total equity	26,233,873	27,997,481
Total Liabilities and Equity	$45,635,260	$50,981,788

See notes to condensed consolidated financial statements

3

GYRODYNE COMPANY OF AMERICA, INC.

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Six Months Ended June 30, 2014	2013	Three Months Ended June 30, 2014	2013
Revenues				
Rental income	$1,184,742	$1,235,151	$572,783	$614,478
Rental income - tenant reimbursements	178,862	197,193	62,216	73,104
Total	1,363,604	1,432,344	634,999	687,582
Expenses				
Rental expenses	766,122	713,430	345,525	337,359
General and administrative expenses	1,150,366	1,570,615	579,616	584,763
Strategic alternative expenses	872,541	645,629	534,799	304,268
Depreciation	161,999	173,263	80,787	88,531
Impairment charges	200,000	-	200,000	-
Total	3,151,028	3,102,937	1,740,727	1,314,921
Other Income (Expense):				
Interest income	45,924	128,629	22,092	70,248
Interest expense	(336,346)	(5,748)	(201,808)	38
Total	(290,422)	122,881	(179,716)	70,286
Net Loss before Condemnation Expense and Provision for Income Taxes	(2,077,846)	(1,547,712)	(1,285,444)	(557,053)
Expense on Condemnation	-	(2,360)	-	-
Net loss from continuing operations	(2,077,846)	(1,550,072)	(1,285,444)	(557,053)
Discontinued Operations				
Income from discontinued operations attributable to Gyrodyne	-	-	-	-
Income from discontinued operations attributable to non-controlling interest	255,920	222,558	135,176	112,316
Net Loss	(1,821,926)	(1,327,514)	(1,150,268)	(444,737)
Net Loss from Non-Controlling Interest in GSD, LLC	(1,780,113)	-	(1,096,383)	-
Net Loss Attributable to Gyrodyne	$(41,813)	$(1,327,514)	$(53,885)	$(444,737)
Net loss attributable to Gyrodyne per common share:				
From continuing operations	(0.03)	(0.90)	(0.04)	(0.30)
From discontinued operations	0.00	0.00	0.00	0.00

Total loss -Basic and diluted	$(0.03)	$(0.90)	$(0.04)	$(0.30)
Weighted average number of common shares outstanding:				
Basic and diluted	1,482,680	1,482,680	1,482,680	1,482,680

See notes to condensed consolidated financial statements

GYRODYNE COMPANY OF AMERICA, INC.

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2014	2013	2014	2013
Net loss attributable to Gyrodyne	$(41,813)	$(1,327,514)	$(53,885)	$(444,737)
Unrealized gain (loss) on investments	58,318	(94,646)	28,335	(68,030)
Comprehensive income (loss) attributable to Gyrodyne	16,505	(1,422,160)	(25,550)	(512,767)
Comprehensive loss attributable to non-controlling interest	(1,780,113)	-	(1,096,383)	-
Comprehensive loss	$(1,763,608)	$(1,422,160)	$(1,121,933)	$(512,767)

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, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(1,821,926)	$(1,327,514)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	482,553	514,012
Impairment charges	200,000	-
Bad debt expense	39,000	12,000
Net periodic pension benefit cost	14,937	176,294
Noncash interest expense	302,813	-
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Rent receivable	(35,547)	(1,499)
Deferred rent receivable	(65,584)	1,873
Prepaid expenses and other assets	(83,934)	(330,517)
(Decrease) increase in liabilities:		
Accounts payable	(892,940)	31,391
Accrued liabilities	(2,964,739)	(51,556)
Deferred rent liability	(29,838)	31,616
Tenant security deposits	1,784	14,407
Total adjustments	(3,031,495)	398,021
Net cash used in operating activities	(4,853,421)	(929,493)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of building improvements and equipment	(509,986)	(284,978)
Land development costs	(74,149)	(53,834)
Purchase of marketable securities	(1,491,900)	-
Principal repayments of investments in marketable securities	227,612	645,296
Net cash (used in) provided by investing activities	(1,848,423)	306,484
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	(6,701,844)	(5,636,424)
Cash and cash equivalents at beginning of period	13,048,827	94,164,722
Cash and cash equivalents at end of period	$6,346,983	$88,528,298
Supplemental cash flow information:		
Interest paid	$-	$26,676
Income and excise taxes paid	$133,000	$70,558
Noncash Investing and Financing Activities:		
Issuance of note to settle PIK interest	$302,813	$-

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 (through GSD’s subsidiaries) 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 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, 2014, the Company has an investment in three separate mortgages due from GSD of approximately $13,370,000. The mortgages 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 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 (the “Grove Property”). For further information see footnote 17.

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 (the "GSD Agreement"). The GSD Agreement 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 cost-plus based management fee to be charged to GSD (see footnote 4 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 LLC agreement, the Company is obligated to provide an initial liquidity facility to GSD in an amount not to exceed $2.5 million, which amount the Company may determine from time to time. 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 payable to its taxable REIT subsidiary, Flowerfield Properties, Inc.

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 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 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. 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. 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., will 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 will ask 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, will be entitled to vote at the special meeting or its adjournment or postponement, if any, provided such meeting takes place by August 30, 2014.

2. Significant accounting policies:

The below disclosures are in addition to the significant accounting policies disclosed on Form 10-K for the year ended December 31, 2013

Revenue recognition – Base rents from rental properties are recognized on a straightline 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 Company 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 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 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.

3. 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, 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 definitive proxy statement/prospectus filed with the SEC on July 1, 2014.

The results of operations for the three and six-month periods ended June 30, 2014 are not necessarily indicative of the results to be expected for the full year.

4. 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 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 $13,369,800 and $13,840,889 as of June 30, 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 30, 2013. At June 30, 2014 and December 31, 2013, the net book value of GSD is approximately $17,278,000 and $19,058,000, respectively. GSD is essentially being managed and operated by the Company 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, 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 June 30, 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, we implemented 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.

5. Consolidating Financial Information

Our consolidated assets at June 30, 2014 and December 31, 2013 include total assets of $33,841,213 and $33,730,130, 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 $32,641,260 and $32,739,678, deferred rent of $281,293 and $215,709, rent receivable of $92,376 and $0, and prepaid and other assets of $826,284 and $774,743, respectively. Our consolidated liabilities at June 30, 2014 and December 31, 2013, prior to reclassifying applicable items to discontinued operations, include liabilities of a VIE consisting of $475,895 and $474,111, respectively of tenant security deposits, accounts payable of $170,228 and $0, and deferred rent liability of $64,084 and $93,922, respectively. The VIE also has mortgages payable, prior to reclassifying applicable items to discontinued operations, to a wholly-owned subsidiary of Gyrodyne of $13,369,800 and $13,840,889, respectively and an outstanding balance in a revolving debt facility of $2,482,852 and $254,740 at June 30, 2014 and December 31, 2013, respectively, that are eliminated in consolidation.

The tables below are the unaudited consolidating June 30, 2014 Balance Sheet and Statement of Operations reflects the operations of Gyrodyne Company of America, Inc. and subsidiaries and GSD.

	Gyrodyne Company of America, Inc. and Subsidiaries	GSD, LLC	Total	Eliminations	Consolidated
ASSETS					
REAL ESTATE					
Rental property:					
Land	$-	$1,733,693	$1,733,693	$-	$1,733,693
Building and improvements	-	11,175,728	11,175,728	-	11,175,728
Machinery and equipment	-	344,733	344,733	-	344,733
	-	13,254,154	13,254,154	-	13,254,154
Less accumulated depreciation	-	4,725,234	4,725,234	-	4,725,234
	-	8,528,920	8,528,920	-	8,528,920
Land held for development:					
Land	-	558,466	558,466	-	558,466
Land development costs	-	1,895,046	1,895,046	-	1,895,046
	-	2,453,512	2,453,512	-	2,453,512
Total real estate, net	-	10,982,432	10,982,432	-	10,982,432
Assets held for sale	-	22,320,755	22,320,755	-	22,320,755
Cash and cash equivalents	6,346,983	-	6,346,983	-	6,346,983
Investment in marketable securities	4,703,470	-	4,703,470	-	4,703,470
Rent receivable, net of allowance for doubtful accounts of approximately $98,000	-	58,024	58,024	-	58,024
Deferred rent receivable	-	51,366	51,366	-	51,366
GSD Line of Credit	2,482,852	-	2,482,852	(2,482,852)	-
Prepaid expenses and other assets	149,724	428,636	578,360	-	578,360
Prepaid pension costs	593,870	-	593,870	-	593,870
Mortgage receivable	13,369,800	-	13,369,800	(13,369,800)	-
Total Assets	$27,646,699	$33,841,213	$61,487,912	$(15,852,652)	$45,635,260
LIABILITIES AND EQUITY					
LIABILITIES:					
Accounts payable	$647,089	$49,832	$696,921	$-	$696,921
Accrued liabilities	281,664	-	281,664	-	281,664
Deferred rent liability	-	36,474	36,474	-	36,474
Tenant security deposits payable	-	268,790	268,790	-	268,790
Liabilities related to assets held for sale	-	9,788,425	9,788,425	(9,433,314)	355,111
GSD Line of Credit	-	2,482,852	2,482,852	(2,482,852)	-
Mortgage Payable	-	3,936,486	3,936,486	(3,936,486)	-

Deferred income taxes	1,315,000	-	1,315,000	-	1,315,000
Note's payable	16,447,427	-	16,447,427	-	16,447,427
Total Liabilities	18,691,180	16,562,859	35,254,039	(15,852,652)	19,401,387
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 income	177,107	-	177,107	-	177,107
Deficit	(9,161,284)	(1,788,114)	(10,949,398)	1,788,114	(9,161,284)
	10,493,216	(1,788,114)	8,705,102	1,788,114	10,493,216
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	8,955,519	(1,788,114)	7,167,405	1,788,114	8,955,519
Non-controlling interest in GSD, LLC		19,066,468	19,066,468	(1,788,114)	17,278,354
Total equity	8,955,519	17,278,354	26,233,873	-	26,233,873
Total Liabilities and Equity	$27,646,699	$33,841,213	$61,487,912	$(15,852,652)	$45,635,260

Consolidated Statement of Operations – Six Months Ending June 30, 2014

	Gyrodyne Company of America, Inc.	GSD, LLC	Total	Eliminations	Consolidated
Revenues					
Rental income	$-	$1,184,742	$1,184,742		$1,184,742
Rental income - tenant reimbursements	-	178,862	178,862		178,862
Other income	2,656,033	-	2,656,033	(2,656,033)	-
Total	2,656,033	1,363,604	4,019,637	(2,656,033)	1,363,604
Expenses					
Reimbursable expenses	766,122	-	766,122	(766,122)	-
Rental expenses	-	790,061	790,061	(23,939)	766,122
General and administrative expenses	1,150,366	1,061,271	2,211,637	(1,061,271)	1,150,366
Strategic alternative expenses	872,541	804,701	1,677,242	(804,701)	872,541
Depreciation	-	161,999	161,999		161,999
Impairment charges	-	200,000	200,000	-	200,000
Total	2,789,029	3,018,032	5,807,061	(2,656,033)	3,151,028
Other Income (Expense):					
Interest income	166,047	-	166,047	(120,123)	45,924
Interest expense	(336,346)	(120,123)	(456,469)	120,123	(336,346)
Total	(170,299)	(120,123)	(290,422)	-	(290,422)
Net Loss from continued operations	(303,295)	(1,774,551)	(2,077,846)	-	(2,077,846)
Net Income from discontinued operations	261,482	(5,562)	255,920	-	255,920
Net Loss	$(41,813)	$(1,780,113)	$(1,821,926)	$-	$(1,821,926)

Consolidated Statement of Operations – Three Months Ending June 30, 2014

	Gyrodyne Company of America, Inc.	GSD, LLC	Total	Eliminations	Consolidated
Revenues					
Rental income	$-	$572,783	$572,783	$-	$572,783
Rental income – tenant reimbursements	-	62,216	62,216	-	62,216
Other income	1,384,710	-	1,384,710	(1,384,710)	-

Total rental income	1,384,710	634,999	2,019,709	(1,384,710)	634,999
Expenses					
Reimbursable expenses	345,525	-	345,525	(345,525)	-
Rental expenses	-	356,476	356,476	(10,951)	345,525
General and administrative expenses	579,616	535,016	1,114,632	(535,016)	579,616
Strategic alternative expenses	534,799	493,218	1,028,017	(493,218)	534,799
Depreciation	-	80,787	80,787	-	80,787
Impairment charges	-	200,000	200,000	-	200,000
Total	1,459,940	1,665,497	3,125,437	(1,384,710)	1,740,727
Other income (expense):					
Interest income	92,671	-	92,671	(70,579)	22,092
Interest expense	(201,808)	(70,579)	(272,387)	70,579	(201,808)
Total	(109,137)	(70,579)	(179,716)	-	(179,716)
Net loss from continued operations	(184,367)	(1,101,077)	(1,285,444)	-	(1,285,444)
Net income from discontinued operations	130,482	4,694	135,176	-	135,176
Net loss	$(53,885)	$(1,096,383)	$(1,150,268)	$-	$(1,150,268)

12

6. REAL ESTATE ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS:

FASB ASC Topic 360-10, *Property, Plant and Equipment – Overall* requires a long-lived asset to be classified as "held for sale" in the period in which certain criteria are met. The Company classifies real estate assets and their related liabilities as held for sale after the following conditions have been satisfied: (1) the receipt of approval from its board of directors to sell the asset, (2) the initiation of an active program to sell the asset, and (3) the asset is available for immediate sale and it is probable that the sale of the asset will be completed within one year. When assets are classified as held for sale, they are recorded at the lower of the assets' carrying amount or fair value, less the estimated selling costs.

The Company and Gyrodyne Special Distribution LLC, its consolidated Variable Interest Entity, periodically classifies real estate assets as held for sale, and these assets and their liabilities are stated separately on the accompanying condensed consolidated balance sheets. During the second quarter of 2014, the Company's board of directors approved the hiring of real estate brokers to facilitate the sale of the Cortlandt Manor Medical Center and Fairfax Medical Center. The Company expects to complete the sale of these properties within one year.

	Assets Held for Sale	
	6/30/2014	12/31/2013
Property		
Cortlandt Manor Medical Center (1)	$8,179,885	$8,272,231
Fairfax Medical Center	13,478,943	13,306,789
Accounts receivable	34,352	13,166
Deferred rent receivable	229,927	158,340
Prepaid expenses and other	397,648	273,795
Total Assets Held for Sale	$22,320,755	$22,024,321

	Liabilities Related to Real Estate Assets Held for Sale	
	6/30/2014	12/31/2013
Accounts payable	$ 120,396	$ 106,978
Deferred rent liability	27,610	72,535
Tenant security deposit payable	207,105	202,453
Total Liabilities Related to Real Estate Assets Held for Sale	$ 355,111	$ 381,966

(1) The Cortlandt Manor Medical Center is inclusive of the two adjacent lots.

The results of operations and the gains or losses from operating properties that are held for sale and or disposed of in accordance with FASB ASC Topic 360-10, *Property, Plant and Equipment – Overall*. These assets and their liabilities are separately stated on the accompanying condensed consolidated balance sheets as "assets held for sale" or liabilities related to assets held for sale. Gains and losses, the results of operations, interest expense, and all expenses related to the retirement of debt from operating properties that are disposed of are included in discontinued operations in the period incurred and are shown separately in the condensed consolidated statements of operations as income from discontinued operations.

The following table summarizes the discontinued operations for the three and six months ended June 30, 2014 and 2013 (unaudited):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
Rental income	$533,405	$490,024	$1,042,091	$968,935
Rental income - tenant reimbursements	48,916	42,652	111,660	108,203
Total rental income	582,321	532,676	1,153,751	1,077,138
Expenses				
Rental Expenses	286,273	270,574	577,277	557,173
Depreciation	160,872	149,786	320,554	297,407
Total expenses	447,145	420,360	897,831	854,580
Net income from discontinuing operations	$135,176	$112,316	$255,920	$222,558

The Company assesses on a regular basis whether there are any indicators that the carrying value of its 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. During the three and six months ended June 30, 2014 and 2013, the Company did not recognize any impairment charges in discontinued operations, relating to real estate assets that were classified as held for sale.

During the second quarter of 2014, the Company recognized aggregate impairment charges of $200,000 on real estate assets classified in continuing operations. (See footnote 18)

7. 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 June 30, 2014 and December 31, 2013 are as follows:

	June 30, 2014	December 31, 2013
Amortized cost	$4,710,325	$3,446,037
Gross Unrealized Gains (Losses)	(6,855)	(65,173)
Fair Value*	$4,703,470	$3,380,864

*The Company received $227,612 in principal repayments during the six months ended June 30, 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 June 30, 2014 and December 31, 2013, marketable securities based on amortized cost, reflect a yield of approximately 2%, have contractual maturities of 15 or 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 17 – Fair Value of Financial Instruments. None of the securities with an unrealized loss at June 30, 2014 is considered to be other-than-temporarily impaired; therefore the unrealized loss was reported in the Consolidated Statement of Comprehensive Income (Loss).

8. Notes Payable:

The transfer of the properties by the Company to GSD resulted in the recognition of approximately $28.4 million of capital gain income by the Company in 2013. Giving effect to offsetting deductions, the Company determined that it would have approximately $18 million in REIT income for 2013. In order to satisfy applicable REIT distribution requirements, on December 20, 2013, the Company declared an additional dividend, payable to the Company's shareholders of record as of December 31, 2013 on January 31, 2014. The Second Special Dividend was paid in the form of interests in a global dividend note due June 30, 2017 ("Dividend Notes") aggregating $16,150,000 ($10.89 per share) in principal amount. The Dividend Notes bear interest at 5.0% per annum, payable semi-annually on June 15 and December 15 of each year, commencing June 15, 2014, and may be payable in cash or in the form of additional notes. On June 16, 2014, the initial semi-annual interest payment on the Dividend Notes was paid in kind in the form of uncertificated interests in a global 5% subordinated note due June 30, 2017 in the principal amount of $302,813 that otherwise is identical to the Dividend Note other than as to the initial semi-annual interest payment date thereunder.

	June 30, 2014	December 31, 2013
Global Dividend Note Payable	$16,144,614	$16,144,614
Global Note Payable	302,813	-
Total Note Payable	$16,447,427	$16,144,614

9. 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 June 30, 2014, and 2013.