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GYRODYNE CO OF AMERICA INC  
Form 10QSB  
December 13, 2004

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

Form 10-QSB

(Mark One)

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

For the quarterly period ended OCTOBER 31, 2004

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

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

Commission file number 0-1684

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

New York  
(State or other jurisdiction of  
incorporation or organization)

11-1688021  
(IRS Employer  
Identification No.)

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 1,179,407 shares of common stock, par value \$1.00 per share, as of October 31, 2004 Transitional Small Business Disclosure Format (Check One): Yes  No

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QUARTER ENDED OCTOBER 31, 2004

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Part I Financial Information  
Item I Financial Statements

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

October 31,  
2004  
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ASSETS

REAL ESTATE

Rental property:

Land	\$ 4,250
Building and improvements	3,925,421
Machinery and equipment	160,489

-----  
4,090,160

Less accumulated depreciation 3,383,439

-----  
706,721

Land held for development:

Land	792,201
Land development costs	4,117,987

-----  
4,910,188

-----  
Total real estate, net 5,616,909

CASH AND CASH EQUIVALENTS 1,005,026

RENT RECEIVABLE, net of allowance for doubtful accounts of \$77,261 196,693

MORTGAGE RECEIVABLE 1,800,000

PREPAID EXPENSES AND OTHER ASSETS 261,793

PREPAID PENSION COSTS 1,313,441

-----  
\$ 10,193,862  
=====

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:

Accounts payable and accrued expenses \$ 187,551

Deferred gain on sale of real estate 1,573,900

Tenant security deposits payable 202,180

Revolving credit line 696,287

Loans payable 23,467

Deferred income taxes 1,660,054

-----  
Total liabilities 4,343,439

STOCKHOLDERS' EQUITY:

Common stock, \$1 par value; authorized 4,000,000 shares;  
1,531,086 shares issued 1,531,086

Additional paid-in capital 7,510,886

Deficit (1,018,644)

-----  
8,023,328

Less the cost of 351,679 shares of common stock held in the treasury (2,172,905)

-----  
Total stockholders' equity 5,850,423

-----  
\$ 10,193,862  
=====

See notes to consolidated financial statements

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

	Six Months Ended October 31,		Three Months Ended October 31,	
	2004	2003	2004	2003
REVENUE FROM RENTAL PROPERTY	\$ 1,027,544	\$ 1,100,753	\$ 527,622	\$ 542,5
RENTAL PROPERTY EXPENSES:				
Real estate taxes	75,234	69,119	37,617	34,5
Operating and maintenance	291,548	228,100	156,709	115,0
Interest expense	18,993	21,250	9,941	8,8
Depreciation	36,116	38,919	18,058	19,4
	421,891	357,388	222,325	177,9
INCOME FROM RENTAL PROPERTY	605,653	743,365	305,297	364,5
GENERAL AND ADMINISTRATIVE	807,139	793,340	391,244	433,5
LOSS FROM OPERATIONS	(201,486)	(49,975)	(85,947)	(68,9
OTHER INCOME:				
Interest income	54,120	54,938	26,558	27,5
(LOSS) INCOME BEFORE INCOME TAXES	(147,366)	4,963	(59,389)	(41,4
(BENEFIT) PROVISION FOR INCOME TAXES	(58,946)	1,985	(23,755)	(16,5
NET (LOSS) INCOME	\$ (88,420)	\$ 2,978	\$ (35,634)	\$ (24,8
NET (LOSS) INCOME PER COMMON SHARE:				
Basic	\$ (0.08)	\$ 0.00	\$ (0.03)	\$ (0.
Diluted	\$ (0.08)	\$ 0.00	\$ (0.03)	\$ (0.
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	1,163,144	1,120,980	1,170,451	1,124,9
Diluted	1,163,144	1,142,633	1,170,451	1,124,9

See notes to consolidated financial statements

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

	Six Months Ended October 31,	
	2004	2003
	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (88,420)	\$ 2,978
<hr style="border-top: 1px dashed black;"/>		
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	57,231	58,785
Bad debt expense	6,000	2,000
Deferred income tax benefit	(58,946)	(19,958)
Stock compensation	0	76,606
Pension expense	112,194	118,435
Changes in operating assets and liabilities:		
Increase in assets:		
Land development costs	(483,674)	(434,620)
Accounts receivable	(109,611)	(79,570)
Prepaid expenses and other assets	(48,855)	(54,496)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(45,258)	(65,761)
Income taxes payable	(28,306)	0
Tenant security deposits	7,204	(44)
Total adjustments	(592,021)	(398,623)
Net cash used in operating activities	(680,441)	(395,645)
<hr style="border-top: 1px dashed black;"/>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property, plant and equipment	(13,394)	(25,557)
Net cash used in investment activities	(13,394)	(25,557)
<hr style="border-top: 1px dashed black;"/>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of loans payable	(5,486)	(11,786)
Loan origination fees	0	73,519
Proceeds from exercise of stock options	141,704	227,707
Net cash provided by financing activities	136,218	289,440
<hr style="border-top: 1px dashed black;"/>		
Net decrease in cash and cash equivalents	(557,617)	(131,762)
Cash and cash equivalents at beginning of period	1,562,643	2,231,317
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Cash and cash equivalents at end of period	\$ 1,005,026	\$ 2,099,555
	=====	

See notes to consolidated financial statements

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## FOOTNOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of Quarterly Presentations:

The accompanying quarterly financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The financial statements of the Registrant included herein have been prepared by the Registrant pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, reflect all adjustments which are necessary to present fairly the results for the three and six month periods ended October 31, 2004 and 2003.

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 financial statements and footnotes therein included in the audited annual report on Form 10-KSB as of April 30, 2004.

The results of operations for the three and six month periods ended October 31, 2004 are not necessarily indicative of the results to be expected for the full year.

### 2. Principle of Consolidation:

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

### 3. Earnings Per Share:

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

The following is a reconciliation of the weighted average shares:

	Six months ended October 31,		Three Months Ended October 31,	
	2004	2003	2004	2003
Basic	1,163,144	1,120,980	1,170,451	1,124,960
Effect of dilutive securities	0	21,653	0	0
Diluted	1,163,144	1,142,633	1,170,451	1,124,960

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### 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. Revolving Credit Note:

The Company has a \$1,750,000 revolving credit line with a bank, bearing interest at a rate of prime plus one percent which was 5.75% at October 31, 2004. The line is secured by certain real estate and expires on June 1, 2006.

### 6. Stock Options:

We have elected the disclosure only provisions of Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") in accounting for our employee stock options. Accordingly, no compensation expense has been recognized. Had we recorded compensation expense for the stock options based on the fair value at the grant date for awards in the three and six months ended October 31, 2004 and 2003 consistent with the provisions of SFAS 123, our net (loss) income and net (loss) income per share would have been adjusted as follows:

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	Six Months Ended		Three M
	October, 31		Oct
	2004	2003	2004
	----	----	----
Net (loss) income, as reported	\$ (88,420)	\$ 2,978	\$ (35,634)
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax effects	0	(95,000)	0
Pro forma net (loss)	\$ (88,420)	\$ (92,022)	\$ (35,634)
Net (loss) income per share:			
Basic - as reported	\$ (0.08)	\$ 0.00	\$ (0.03)
Basic - pro forma	\$ (0.08)	\$ (0.08)	\$ (0.03)
Diluted - as reported	\$ (0.08)	\$ 0.00	\$ (0.03)
Diluted - pro forma	\$ (0.08)	\$ (0.08)	\$ (0.03)

### 7. Shareholder Rights Agreement:

On August 10, 2004, the Board of Directors of the Company adopted a Shareholder

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Rights Agreement and declared a dividend distribution of one right for each outstanding share of common stock of the Company held by stockholders of record on August 27, 2004. Each right entitles the holder to purchase from the Company one share of the Company's common stock at an exercise price of \$75.00 per share. Initially the rights will not be exercisable, certificates will not be sent to stockholders, and the rights will automatically trade with the common stock. The principal terms of the Shareholder Rights Agreement are as follows:

a. Unless previously redeemed by the Board of Directors, the rights become exercisable upon the earlier of the tenth business day following the date ("Stock Acquisition Date") on which there is a public announcement that a person or group of persons ("Acquiring Person") has acquired beneficial ownership of 20% or more of the outstanding common stock of the Company or the tenth business day after the date an Acquiring Person has offered to purchase 20% or more of the Company's outstanding common stock.

b. If, after the time that a person or group of persons becomes an Acquiring Person, the Company were to be acquired in a merger or other business combination or more than 50% of the assets or earning power of the Company and its subsidiaries were to be sold or transferred, each holder of a right, other than the Acquiring Person, will have the right to receive, upon payment of the exercise price, that number of shares of common stock of the acquiring company having a market value at the time of the transaction equal to two times the exercise price.

c. At any time prior to the acquisition by an Acquiring Person of 50% or more of the outstanding common stock, the Board of Directors of the Company may exchange the rights (other than rights owned by an Acquiring Person), in whole or in part, at an exchange ratio of one share of common stock per right (subject to adjustment).

d. At any time prior to the tenth business day after the Stock Acquisition Date (or such later date as the Board of Directors may determine), the Company may redeem the rights at a price of \$0.005 per right.

e. The Company may amend the rights in any manner, with certain exceptions.

f. Until a right is exercised, the holder will have no rights as a stockholder of the Company, including the right to vote or to receive dividends.

g. The rights will expire at the close of business on August 11, 2014 or, if distributed before August 11, 2014, at the close of business on the 90th day following the distribution date.

### 8. Retirement Plans:

The Company records net periodic pension benefit cost pro rata throughout the year. The following table provides the components of net periodic pension benefit cost for the plan for the three and six months ended October 31, 2004 and 2003:

Six Months Ended		Three Mo
-----		-----
October, 31		Octo
-----		-----
2004	2003	2004
----	----	----



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Pension Benefits			
Service Cost	\$ 64,984	\$ 43,358	\$ 32,492
Interest Cost	64,580	59,610	32,290
Expected Return on Plan Assets	(82,916)	(63,084)	(41,458)
Amortization of Prior-Service Cost	35,508	36,371	18,615
Amortization of Net Loss	30,038	42,180	15,019
Net Periodic Benefit Cost After Curtailments and Settlements	\$ 112,194	\$ 118,435	\$ 56,958

During the six months ended October 31, 2004, the Company made no contributions to the plan. The Company has no minimum required contribution for the April 30, 2005 plan year.

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### 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

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.

#### Critical Accounting Policies

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

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to those of companies in similar businesses.

### Revenue Recognition

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

### Real Estate

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

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

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

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

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

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### Long Lived Assets

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

The Company is required to make subjective assessments as to whether there are impairments in the value of its real estate properties and other investments. These assessments have a direct impact on the Company's net income, since an impairment charge results in an immediate negative adjustment to net income. In

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determining impairment, if any, the Company has adopted Financial Accounting Standards Board ("FASB") Statement No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets."

### Stock-Based Compensation

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

### RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2004 AS COMPARED TO THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2003

The Company is reporting a net loss of \$35,634 for the quarter ending October 31, 2004 compared to a net loss of \$24,856 for the same period last year and a net loss of \$88,420 for the first six months of this fiscal year. That loss compares to net income of \$2,978 for the same six month period of the prior year.

Diluted per share (loss) earnings amounted to (\$0.03) and (\$0.02) for the three months ending October 31, 2004 and 2003, respectively, and (\$0.08) and \$0.00 for the six month periods of 2004 and 2003, respectively.

Revenue from rental property, which totaled \$527,622 for the reporting period, reflects a decrease of \$14,947 compared to the same period last year when revenues amounted to \$542,569. For the six months ending October 31, revenue from rental property amounted to \$1,027,544 and \$1,100,753 for 2004 and 2003, respectively; a decline of \$73,209. The decline for the six month period is attributable to previously reported rent concessions which totaled \$51,820 and a net reduction in the rent roll of \$20,591. For the quarter ending October 31, 2004, the decrease in revenues can be traced to similar causes with concessions amounting to \$26,760 and the rent roll reflecting an increase of \$15,477 which is attributable to a non-recurring event. The reduced rental activity has been somewhat mitigated with new tenancies in recent months and we expect a slight improvement in that downward trend.

Rental property expenses increased for both the three and six month reporting periods, reflecting a \$44,355 increase for the quarter and a \$64,503 increase for the six months ending October 31, 2004. The three month results reflect expenses of \$222,325 and \$177,970 for 2004 and 2003, respectively, while the six month expenses total \$421,891 and \$357,388, respectively. For the most part, and in both cases, the increases are attributable to operating and maintenance issues and increased real estate taxes. As previously reported, the Company has experienced a major increase in the cost of property and casualty insurance premiums which impacted the three and six month periods by \$28,289 and \$56,577, respectively. Maintenance on buildings and grounds increased by \$10,492 for the quarter and \$4,912 for the six months ending October 31, 2004. Real estate taxes increased by \$3,057 and \$6,115 and salaries and benefits reflect an increase of \$6,147 and \$5,829 for the quarter and six month reporting periods, respectively. For the quarter, fuel and electric expenses were reduced by \$4,221 and by \$5,831 for the six months ending October 31, 2004.

As a result, income from rental property declined from \$364,599 to \$305,297 for the quarter and from \$743,365 to \$605,653 for the six months ending October 31, 2004 and 2003, respectively. For the quarter, income declined by \$59,302 or 16%

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while the six month results reflect a decline of \$137,712 or 19%.

General and administrative expenses declined by \$42,330 from the \$433,574 reported in the quarter ending October 31, 2003 to \$391,244 in the current reporting period. However, over the six month period, general and administrative expenses increased by \$13,799, amounting to \$807,139 and \$793,340 as of October 31, 2004 and 2003, respectively. Salaries and benefits decreased by \$70,561 and \$64,135 for the three and six month reporting period. The most significant factor accounting for this decline was a total expense of \$76,606 related to stock option compensation during the prior year. Increases in salaries and other benefits, which account for the balance of the variances, amounted to \$6,045 and \$12,471 for the three and six month periods, respectively. Reflecting for the

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most part the costs associated with establishing a shareholders rights plan, stockholder expense increased by \$23,802 and \$65,122 for the three and six month periods ending October 31, 2004. The balance of the variances between the current periods and the prior year consist of increases in the cost of liability insurance amounting to \$6,672 for the quarter and \$13,344 for the six month reporting period. There were other minor variances and some timing differences which basically offset each other during the current three and six month periods.

As a result of the foregoing, the Company is reporting a loss from operations totaling \$85,947 for the current three month period as compared to a loss of \$68,975 for the same three month period last year. For the six months ending October 31, the loss from operations amounted to \$49,975 and \$201,486 during 2003 and 2004, respectively.

Other income showed little change in both the three and six month periods ending October 31, 2004 when compared with the prior year results. For the three months then ended, other income amounted to \$26,558 compared to \$27,549 during the prior year. The six month results reflect income of \$54,120 and \$54,938 for 2004 and 2003, respectively.

As a result, the Company is reporting a loss before income taxes for both the three and six month current reporting periods. The current quarter reflects a loss of \$59,389 compared to a loss of \$41,426 during the prior year. For the six months ending October 31st, the current period reflects a loss of \$147,366 compared to income before taxes of \$4,963 during the prior year.

### LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was \$680,441 and \$395,645 during the six months ended October 31, 2004 and 2003, respectively. The principal use of cash in both periods were funds used in connection with planning and pre-construction costs associated with land development plans for the golf course community. The Company also incurred costs included in the capitalized land development costs pertaining to legal, and communication costs to shareholders and the community regarding the potential Stony Brook University condemnation of the Company's real estate property.

Net cash used in investing activities was \$13,394 and \$25,557 during the six months ended October 31, 2004 and 2003, respectively. The use of cash in both periods was for the acquisition of property, plant and equipment.

Net cash provided by financing activities was \$136,218 and \$289,440 during the six months ended October 31, 2004 and 2003, respectively. The net cash provided during the current and prior period was primarily the result of proceeds from

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the exercise of stock options. The prior period's results also reflect the refinancing of mortgage debt on the Flowerfield property. The Company has a \$1,750,000 revolving credit line with a bank, bearing interest at a rate of prime plus one percent which was 5.75% at October 31, 2004. The unused portion of the credit line of \$1,053,713 will enhance our financial position and liquidity and be available, if needed, to fund any unforeseen expenses associated with the Company's development plan.

As of October 31, 2004, the Company had cash and cash equivalents of \$1,005,026 as well as a mortgage receivable of \$1,800,000 due on August 8, 2005 and anticipates having the capacity to fund normal operating and administrative expenses, its regular debt service requirements and the remaining predevelopment expenses related to securing entitlements for the planned residential golf course community. To date, expenses associated with the development of the Flowerfield property, which have been capitalized, total \$4,117,987. As of October 31, 2004, the portion of those expenses attributable to the residential golf course community amount to \$2,059,795. Working capital, which is the total of current assets less current liabilities as shown in the accompanying chart, amounted to \$2,778,602 at October 31, 2004.

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	October 31,	
	2004	2003
Current assets:		
Cash and cash equivalents	\$ 1,005,026	\$ 2,099,555
Rent receivable, net	196,693	149,007
Mortgage receivable	1,800,000	0
Net prepaid expenses and other assets	174,025	177,333
Total current assets	3,175,744	2,425,895
Current liabilities:		
Accounts payable and accrued expenses	187,551	183,863
Tenant security deposits payable	202,180	238,160
Current portion of loans payable	7,411	12,206
Total current liabilities	397,142	434,229
Working capital	\$ 2,778,602	\$ 1,991,666

### LIMITED PARTNERSHIP INVESTMENT

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

### (c) OFF-BALANCE SHEET ARRANGEMENTS

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

### Item 3 CONTROLS AND PROCEDURES

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer has concluded that the disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reports as and when required.

There have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation that occurred during the Company's last fiscal quarter that has materially affected, or that is reasonably likely to materially affect, the Company's internal control over financial reporting.

### Part II Other Information

Items 1 through 3 are not applicable to the August 1, 2004, through October 31, 2004, period.

### Item 4 Submission of Matters to a Vote of Security Holders

The Company's annual shareholder meeting for Fiscal Year 2004 was held on November 11, 2004. On each matter submitted to shareholders, the votes were as follows:

To elect one director, Elliot H. Levine, to serve for a term of one year and three directors, Stephen V. Maroney, Philip F. Palmedo and Ronald J. Macklin to serve for a term of three years or until their successors shall be elected and shall qualify: Elliot H. Levine; votes for 1,038,786, votes withheld 26,620; Stephen V. Maroney; votes for 967,219, votes withheld 98,187; Philip F. Palmedo; votes for 967,219, votes withheld 98,187 and Ronald J. Macklin; votes for 967,114, votes withheld 98,292.

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Messrs. Lamb, Smith and Beyer continue to serve as directors in accordance with their terms of office.

To ratify the engagement of Holtz Rubenstein Reminick, LLP as independent certified public accountants and auditors for the fiscal year ending April 30, 2005; votes for 970,376, votes against 9,869, votes abstain 85,161.

### Item 5 Other Information

The Company's Chief Executive Officer and Chief Financial Officer has furnished a statement relating to this Form 10-QSB for the quarter ended October 31, 2004 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. The statement is attached hereto as Exhibit 31.1.

### Item 6 Exhibits and Reports on Form 8-K

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- a. Exhibits:
- 4.1 Shareholder Rights Plan (incorporated herein by reference in the Form 8-K filed with the Securities and Exchange Commission on August 13, 2004).
  - 31.1 Rule 13a-14(a)/15d-14(a) Certification.
  - 32.1 CEO/CFO Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- b. Reports on Form 8-K. The Company filed the following Current Reports on Form 8-K during the second quarter of fiscal year 2005 and through the filing date:

Current Report on Form 8-K filed with the SEC on August 13, 2004 stating that the Board of Directors declared a dividend distribution of one right for each outstanding share of Common Stock, \$1.00 par value per share, of the Corporation held by stockholders of record on August 27, 2004, the Record Date.

Current Report on Form 8-A filed with the SEC on August 13, 2004 stating that the Board of Directors declared a dividend distribution of one right for each outstanding share of Common Stock, \$1.00 par value per share, of the Corporation held by stockholders of record on August 27, 2004, the Record Date. This Form 8-A amended the Form 8-K filed August 13, 2004 by deleting Exhibit 99.1, a press release dated August 13, 2004 announcing the adoption of a Shareholder Rights Plan.

Current Report on Form 8-K filed with the SEC on September 7, 2004 announcing that Robert F. Friemann, a member of the Company's Board of Directors, resigned from the Board of Directors of the Company effective as of August 19, 2004.

Current Report on Form 8-K filed with the SEC on October 13, 2004 attaching a press release and stating that the Registrant's Board of Directors unanimously voted to appoint Elliot H. Levine as director to fill the vacancy created by the resignation of Robert F. Friemann.

Current Report on Form 8-K filed with the SEC on October 20, 2004 stating that the Registrant issued a press release announcing that Institutional Shareholder Services ("ISS"), a national proxy advisory firm, recommended that the Registrant's shareholders vote "FOR" the election of management's slate of directors and ratification of the appointment of independent auditors.

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### SIGNATURES

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

GYRODYNE COMPANY OF AMERICA, INC.

Date: December 10, 2004

/S/ Stephen V. Maroney

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Stephen V. Maroney  
President, Chief Executive Officer

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and Treasurer

Date: December 10, 2004

/S/ Frank D'Alessandro

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Frank D'Alessandro  
Controller

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