

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended June 30, 2021

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 001-37547

Gyrodyne, LLC

(Exact name of registrant as specified in its charter)

New York

46-3838291

(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 No

Indicate by check mark whether the registrant has submitted every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Title of Each Class	Trading Symbol	Name of Exchange on which Registered
<u>Common Shares of Limited Liability Company Interests</u>	<u>GYRO</u>	<u>Nasdaq</u> Capital Market

On August 6, 2021, there were 1,482,680 common shares outstanding.

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 QUARTER ENDED JUNE 30, 2021

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

GYRODYNE, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2021 (UNAUDITED) AND DECEMBER 31, 2020
 (Liquidation Basis)

	June 30, 2021 (Unaudited)	December 31, 2020
ASSETS:		
Real estate held for sale	<u>\$ 38,550,000</u>	<u>\$ 39,050,000</u>
Cash and cash equivalents	<u>2,407,390</u>	<u>1,632,231</u>
Restricted cash	<u>169,000</u>	<u>169,000</u>
Rent receivable	<u>21,581</u>	<u>21,849</u>
Other receivables	<u>38,077</u>	<u>34,751</u>
Total Assets	<u>\$ 41,186,048</u>	<u>\$ 40,907,831</u>

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements.

GYRODYNE, LLC AND SUBSIDIARIES
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AS OF JUNE 30, 2021 (UNAUDITED) AND DECEMBER 31, 2020
(Liquidation Basis)

	June 30, 2021 (Unaudited)	December 31, 2020
ASSETS:		
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Restricted cash	<u>169,000</u>	<u>169,000</u>
Rent receivable	<u>21,581</u>	<u>21,849</u>
Other receivables	<u>38,077</u>	<u>34,751</u>
Total Assets	<u>\$ 41,186,048</u>	<u>\$ 40,907,831</u>
LIABILITIES:		
Accounts payable	\$ <u>1,044,554</u>	\$ <u>893,183</u>
Accrued liabilities	<u>755,942</u>	<u>556,926</u>
Deferred rent liability	<u>36,293</u>	<u>15,283</u>
Tenant security deposits payable	<u>246,264</u>	<u>241,722</u>
Loans payable	<u>6,229,799</u>	<u>5,159,833</u>
Estimated liquidation and operating costs net of estimated receipts	<u>10,404,315</u>	<u>11,552,940</u>
Total Liabilities	<u>18,717,167</u>	<u>18,419,887</u>
Net assets in liquidation	<u>\$ 22,468,881</u>	<u>\$ 22,487,944</u>

See notes to consolidated financial statements

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GYRODYNE, LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE SIX-MONTHS ENDED JUNE 30, 2021
(Liquidation Basis)
(Unaudited)

Net assets in liquidation, as of December 31, 2020		<u>\$22,487,944</u>
Changes in assets and liabilities in liquidation:		
Change in liquidation value of real estate	\$ -	
Remeasurement of assets and liabilities	<u>19,063</u>	()
Net decrease in liquidation value		<u>19,063</u> ()
Net assets in liquidation, as of June 30, 2021		<u>\$22,468,881</u>

See notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (LIQUIDATION BASIS) FOR THE SIX-MONTHS ENDED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (LIQUIDATION BASIS) FOR THE SIX-MONTHS ENDED JUNE 30, 2021 (unaudited)

▶ **1. The Company** ◀

Gyrodyne, LLC (including its subsidiaries, “Gyrodyne”, the “Company” or the “Registrant”) is a limited liability company formed under the laws of the State of New York whose primary business is the management of, and the pursuit of entitlements on, a portfolio of medical office and industrial properties located in Suffolk (“Flowerfield”) and Westchester Counties (“Cortlandt Manor”), New York State.

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

Gyrodyne’s corporate strategy is to enhance the value of Flowerfield and Cortlandt Manor by pursuing entitlement opportunities and enhancing the value of its leases. The Company believes the aforementioned strategy will increase the values for such properties. The value of the real estate reported in the consolidated statements of net assets as of June 30, 2021 and December 31, 2020 (predicated on current asset values) includes some, but not all of the potential value impact that may result from such value enhancement efforts. There can be no assurance that our value enhancement efforts will result in property value increases that exceed the costs we incur in such efforts, or even any increase at all.

Our efforts to generate the highest values for Flowerfield and Cortlandt Manor may involve in limited circumstances various other strategies to enhance the net value of Flowerfield and Cortlandt Manor to maximize the returns for our shareholders. Gyrodyne intends to dissolve after it completes the disposition of all of its real property assets, applies the proceeds of such dispositions first to settle any debts and claims, pending or otherwise, against Gyrodyne, and then makes distributions to holders of Gyrodyne common shares. The process of seeking entitlements to enhance property values and the amount and timing of distributions from proceeds of asset sales involve risks and uncertainties. As such, it is impossible at this time to determine the ultimate amount of proceeds that will actually be distributed to our shareholders or the timing of such payments. Accordingly, no assurance can be given that the distributions will equal or exceed the estimate of net assets presented in our consolidated statements of net assets. The actual nature, amount and timing of all distributions will be determined by Gyrodyne’s Board in its sole discretion and will depend in part upon the Company’s ability to convert our remaining assets into cash in compliance with our obligations under the Stipulation entered into in connection with the class action lawsuit (See Note 13 – Contingencies) and settle and pay our remaining liabilities and obligations. Under Gyrodyne’s Amended and Restated Limited Liability Company Agreement (the “LLC Agreement”), such dissolution may be effected upon the vote of holders of a majority of Gyrodyne common shares or, in the Company’s discretion and without any separate approval by the holders of Gyrodyne common shares, at any time the value of Gyrodyne’s assets, as determined by the Company in good faith, is less than \$1,000,000.

The Company’s remaining real estate investments, each of which is held in a single asset limited liability company wholly owned by the Company, consist of:

- Cortlandt Manor: 13.8 acres in Cortlandt Manor, New York, consisting of the 34,000 square foot Cortlandt Manor Medical Center; and
- Flowerfield: 63 acres in St. James, New York, including a 10-acre multi-tenanted industrial park comprising 127,000 rentable square feet. There were an additional 5 acres comprising of two parcels that were zoned residential and non-contiguous to the Flowerfield property which the Company sold in April 2021 (See Note 6 – Disposition Activities).

2. Basis of Quarterly Presentations

The accompanying interim quarterly financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“GAAP”). The consolidated 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 six-months ended June 30, 2021.

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 consolidated financial statements and footnotes therein included in the Annual Report on Form 10-K for the year ended December 31, 2020.

3. Summary of Significant Accounting Policies

Gyrodyne intends to dissolve after it completes the disposition of all of its real property assets, applies the proceeds of such dispositions first to settle any debts and claims, pending or otherwise, against Gyrodyne, and then makes distributions to holders of Gyrodyne common shares. Therefore, effective September 1, 2015 Gyrodyne adopted the liquidation basis of accounting. This basis of accounting is considered appropriate when, among other things, liquidation of the entity is “imminent”, as defined in ASC 205-30, Presentation of Financial Statements Liquidation Basis of Accounting. Under the LLC Agreement, the Company may elect, in its sole discretion and without any separate approval by shareholders, to dissolve the Company at any time the value of the Company’s assets, as determined by the Company in good faith, is less than \$

1 million. The LLC Agreement also provides that the Company will dissolve, and its affairs wound up, upon the sale, exchange or other disposition of all the real properties of the Company. As a result, liquidation is deemed to be “imminent” in accordance with the guidance provided in ASC 205-30.

Principles of Consolidation - The consolidated financial statements include the accounts of Gyrodyne and all subsidiaries. All consolidated subsidiaries are wholly owned. All inter-company balances and transactions have been eliminated.

Basis of Presentation - Liquidation Basis of Accounting – Under the liquidation basis of accounting the consolidated balance sheet and consolidated statements of operations, equity, comprehensive income and cash flows are no longer presented. The consolidated statements of net assets and the consolidated statements of changes in net assets are the principal financial statements presented under the liquidation basis of accounting.

Under the liquidation basis of accounting, all the Company’s assets have been stated at their estimated net realizable value, or liquidation value, (which represents the estimated amount of cash that Gyrodyne will collect on the disposal of assets as it carries out the plan of liquidation), which is based on current contracts, estimates and other indications of sales value (predicated on current values). All liabilities of the Company, including those estimated costs associated with implementing the plan of liquidation, have been stated at their estimated settlement amounts. These amounts are presented in the accompanying statements of net assets. These estimates are periodically reviewed and adjusted as appropriate. There can be no assurance that these estimated values will be realized. Such amounts should not be taken as an indication of the timing or amount of future distributions or our actual dissolution. The valuation of assets at their net realizable value and liabilities at their anticipated settlement amount represent estimates, based on present facts and circumstances, of the net realizable value of the assets and the costs associated with carrying out the plan of liquidation. The actual values and costs associated with carrying out the plan of liquidation may differ from amounts reflected in the accompanying consolidated financial statements because of the plan’s inherent uncertainty. These differences may be material. In particular, the estimates of our costs will vary with the length of time necessary to complete the plan of liquidation, which is currently anticipated to be completed by December 31, 2022. The Company is in the process of pursuing entitlements and density approvals, and

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The Company’s assumptions and estimates (including the sales proceeds of all its real estate holdings, selling costs, retention bonus payments, rental revenues, rental expenses, capital expenditures, land entitlement costs, general and administrative fees, director and officer liability and reimbursement, post liquidation insurance tail coverage policy and final liquidation costs) are based on completing the liquidation by December 31, 2022. As previously stated, on an ongoing basis, Gyrodyne evaluates the estimates and assumptions that can have a significant impact on the reported net assets in liquidation and will update respective information accordingly for any costs and value associated with a change in the duration of the liquidation, as we cannot give any assurance on the timing of the ultimate sale of all the Company’s properties.

Management Estimates – In preparing the consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”) and the liquidation basis of accounting, management is required to make estimates and assumptions that affect the reported amounts of assets, including net assets in liquidation, and liabilities, and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of receipts and expenditures for the reporting period. Actual results could differ from those estimates.

Cash equivalents - The Company considers all certificates of deposits, money market funds, treasury securities and other highly liquid debt instruments purchased with short-term maturities to be cash equivalents.

Allowance for doubtful accounts – Rent receivable is carried at net realizable value. Management makes estimates of the collectability of rents receivable. Management specifically analyzes receivables and historical bad debts, tenant concentrations, tenant creditworthiness, current economic trends, including the impact of the outbreak of the novel strain of coronavirus (COVID-19) on tenants’ business, and changes in tenant payment patterns when evaluating the adequacy of the allowance for doubtful accounts.

Estimated Distributions per Share – Under the liquidation basis of accounting, the Company reports estimated distributions per share data by dividing net assets in liquidation by the number of shares outstanding.

New Accounting Pronouncements - Management has evaluated the impact of newly issued accounting pronouncements, whether effective or not as of June 30, 2021, and has concluded that they will not have a material impact on the Company’s consolidated financial statements since the Company reports on a liquidation basis.

▶ 4. Statements of Net Assets in Liquidation ◀

Net assets in liquidation on June 30, 2021 and December 31, 2020 would result in estimated liquidating distributions of \$
22,468,881
 and \$
22,487,944
 , or approximately \$
15.15
 and \$
15.17
 per common share, respectively, based on
1,482,680
 shares outstanding. The decrease of \$
19,063
 or \$
0.02

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15.15

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15.17

per common share, respectively, based on

1,482,680

shares outstanding. The decrease of \$

19,063

or \$

0.02

per share is attributable to the change in the estimated liquidation and operating costs net of receipts, mainly due to additional interest expense and closing/prepayment fees on the loan that is the subject to the commitment letter the Company executed in August 2021 (see Note 17) of approximately \$

107,000

and \$

223,000

, respectively, and additional property operating expenses and selling costs of \$

40,035

and \$

20,737

, respectively, offset by additional rental revenue and savings in corporate expenditures of approximately \$

270,000

and \$

101,000

, respectively.

The cash balance at the end of the liquidation period (currently estimated to be December 31, 2022, although the estimated completion of the liquidation period may change), excluding any interim distributions, is estimated based on adjustments for the following items which are estimated through December 31, 2022:

1. The estimated cash receipts from the operation of the Company’s properties net of rental property related expenditures as well as

- costs expected to be incurred to preserve or improve the net realizable value of the properties at their estimated gross sales proceeds.
- 2. Net proceeds from the sale of all the Company's real estate holdings.
- 3. The general and administrative expenses and or liabilities associated with operations and the liquidation of the Company including severance, director and officer liability coverage including post liquidation tail policy coverage, and financial and legal fees to complete the liquidation.
- 4. Costs for the pursuit of entitlements on the Flowerfield and Cortlandt Manor properties.
- 5. Retention bonus amounts (See Note 12).
- 6. Costs, including principal payments, net of drawdowns on the Company's credit facilities to fund tenant improvements and working capital and related fees.

The Company estimates the net realizable value of its real estate assets by using income and market valuation techniques. The Company may estimate net realizable values using market information such as broker opinions of value, appraisals, and recent sales data for similar assets or discounted cash flow models, which primarily rely on Level 3 inputs, as defined under FASB ASC Topic No. 820, Fair Value Measurement. The cash flow models include estimated cash inflows and outflows over a specified holding period. These cash flows may include contractual rental revenues, projected future rental revenues and expenses and forecasted capital improvements and lease commissions based upon market conditions determined through discussion with local real estate professionals and relevant Company experience with its current and previously owned properties. Capitalization rates and discount rates utilized in these models are estimated by management based upon rates that management believes to be within a reasonable range of current market rates for the respective properties based upon an analysis of factors such as property and tenant quality, geographical location and local supply and demand observations. To the extent the Company underestimates or overestimates forecasted cash outflows (capital improvements, lease commissions and operating costs) or overestimates or underestimates forecasted cash inflows (rental revenue rates), the estimated net realizable value of its real estate assets could be overstated or understated.

The Company estimates that it will incur approximately \$

1.11
million (included in the consolidated statement of net assets as part of the estimated liquidation and operating costs net of receipts, See Note 5) in land entitlement costs from July 2021 through the end of the liquidation period, currently estimated to conclude on or about December 31, 2022, in an effort to obtain entitlements, including special permits. The Company believes the commitment of these resources will enable the Company to position the properties for sale with all entitlements necessary to maximize the Flowerfield and Cortlandt Manor property values and resulting distributions. During the six months ended June 30, 2021, the Company incurred approximately \$

384,000
of land entitlement costs, consisting predominantly of engineering fees, legal fees and real estate taxes. The Company believes the remaining balance of \$1.11 million (approximately \$

210,000
of which certain of the Company service vendors have agreed to defer until the first post subdivision property lot is sold) will be incurred from July 2021 through the end of the liquidation period. The Company does not intend to develop the properties but rather to commit resources to position the properties for sale in a timely manner with all entitlements necessary to achieve maximum pre-construction values. The costs and time frame to achieve the entitlements could change due to a range of factors including a shift in the value of certain entitlements making it more profitable to pursue a different mix of entitlements and the dynamics of the real estate market. As a result, the Company has focused and will continue to focus its land entitlement efforts on achieving the highest and best use while considering the time necessary to achieve such entitlements. During the process of pursuing such entitlements, the Company may entertain offers from potential buyers who may be willing to pay premiums for the properties that the Company finds more acceptable from a timing or value perspective than completing the entitlement processes itself. The value of the real estate reported in the statement of net assets as of June 30, 2021 (predicated on current asset values) includes some but not all of the potential value impact that may result from the land entitlement efforts. There can be no assurance that our value enhancement efforts will result in property value increases that exceed the costs we incur in such efforts, or even any increase at all.

The net assets as of June 30, 2021 (\$

22,468,881
) and December 31, 2020 (\$
22,487,944
) results in estimated distributions of approximately \$

15.15
and \$
15.17
, respectively, per common share (based on
1,482,680

shares outstanding), based on estimates and other indications of sales value (predicated on current asset values) which includes some but not all of the potential sales proceeds that may result directly or indirectly from our land entitlement efforts. Some of the additional value that may be derived from the land entitlement efforts is not included in the estimated distributions as of June 30, 2021 because the amount of such additional value that may result from such efforts are too difficult to predict with sufficient certainty. The Company believes the land entitlement efforts will enhance estimated distributions per share through the improved values (a large amount of which has already been included in the reported value for real estate held for sale) from the sales of the Flowerfield and Cortlandt Manor properties net of the costs to achieve the improved values and other expenses. This estimate of distributions includes projections

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► **5. Estimated Liquidation and Operating Costs Net of Estimated Receipts** ◀

The liquidation basis of accounting requires the Company to estimate net cash flows from operations and to accrue all costs associated with implementing and completing the plan of liquidation. The Company currently estimates that it will incur liquidation and operating costs net of estimated receipts during the liquidation period, excluding the net proceeds from the real estate sales. These amounts can vary significantly due to, among other things, land entitlement costs, the timing and estimates for executing and renewing leases, capital expenditures to maintain the real estate at its current estimated realizable value and estimates of tenant improvement costs, the timing of property sales and any direct/indirect costs incurred that are related to the sales (e.g., retention bonuses on the sale of the Cortlandt Manor and Flowerfield properties, costs to address buy side due diligence inclusive of administrative fees, legal fees and property costs to address items arising from such due diligence and not previously known), the timing and amounts associated with discharging known and contingent liabilities and the costs associated with the winding up of operations. These costs are estimated and are anticipated to be paid during the liquidation period.

The change in the liability for estimated operating costs in excess of estimated receipts during liquidation from January 1, 2021 through June 30, 2021 has been calculated as follows:

Expenditures/	Remeasurement of Assets and
---------------	--------------------------------

	January 1, 2021	(Receipts)	Liabilities	June 30, 2021
Assets:				
Estimated rents and reimbursements	\$ <u>4,926,648</u>	\$ <u>1,290,329</u>	\$ <u>270,155</u>	\$ <u>3,906,474</u>
Liabilities:				
Property operating costs	<u>3,061,404</u>	(<u>815,748</u>)	<u>40,035</u>	(<u>2,285,691</u>)
Common area capital expenditures	<u>460,638</u>	(<u>43,491</u>)	-	(<u>417,147</u>)
Land entitlement costs	<u>1,490,699</u>	(<u>384,302</u>)	-	(<u>1,106,397</u>)*
Corporate expenditures	<u>6,344,342</u>	(<u>1,078,284</u>)	<u>228,446</u>	(<u>5,494,504</u>)
Selling costs on real estate assets	<u>3,057,997</u>	(<u>69,298</u>)	<u>20,737</u>	(<u>3,009,436</u>)
Retention bonus payments to Directors, executives and employees**	<u>2,913,480</u>	(-)	-	(<u>2,913,480</u>)
Less prepaid expenses and other assets	<u>848,972</u>	(<u>66,894</u>)	-	(<u>915,866</u>)
Liability for estimated liquidation and operating costs net of estimated receipts	<u>\$ 11,552,940</u>	(<u>\$ 1,167,688</u>)	<u>\$ 19,063</u>	(<u>\$ 10,404,315</u>)

* The Company reached agreements with certain service vendors to defer payment of approximately \$

210,000

of the \$

1.11

million until the closing of the first property lot sale that is the subject of either the Flowerfield or Cortlandt Manor subdivision, respectively.

** The amounts reported are based on the provisions of the retention bonus plan and the reported amount of the real estate assets estimated net realizable value. Based on the estimated real estate value of the Cortlandt property, aggregate proceeds from the sale of the two Cortlandt lots would not exceed the adjusted floor under the retention bonus plan and therefore the above table only reflects the projected bonus from the sale of the Flowerfield property.

6. Disposition Activities

On April 26, 2021, the Company closed on the sale of its

5.0

-acre parcel of vacant land that is non-contiguous to and not part of the Flowerfield complex in Smithtown, New York for a purchase price of \$

500,000

as per the purchase and sale agreement signed on May 11, 2020.

Terminated Contracts

Flowerfield - On August 27, 2019, the Company's wholly owned subsidiary GSD Flowerfield, LLC entered into a Purchase and Sale Agreement (the "BSL Agreement") for the sale of a

9.0

-acre parcel of vacant land (the "BSL Agreement Property") in the Flowerfield complex in Smithtown, New York for \$

16,800,000

to BSL St. James LLC, a Delaware limited liability company ("BSL"). The Agreement provided that BSL would have the right to terminate the BSL Agreement by written notice to GSD Flowerfield prior to the expiration of a defined inspection period (which had been extended via amendments to the BSL Agreement) if BSL was not fully satisfied, in BSL's sole discretion, as to the status of title, suitability of the Property and all factors concerning same, in which case BSL would have the right to receive a refund of its earnest money deposit.

On March 16, 2021, the Company received a notice (the "BSL Termination Notice") from BSL that it is terminating the BSL Agreement. The BSL Termination Notice referenced the foregoing termination right and requested the return of the earnest money deposit to BSL in accordance with the provisions of the BSL Agreement. Such earnest money deposit has been returned to BSL.

The BSL Agreement Property is included in the Company's subdivision application with the Town of Smithtown, New York, to subdivide the entire Flowerfield property into eight separate parcels (one parcel of which is a catering hall facility sold by the Company in 2002). The Company believes the termination of the BSL Agreement should have no impact on the subdivision application and will

▶ **6. Disposition Activities**

On April 26, 2021, the Company closed on the sale of its

5.0

-acre parcel of vacant land that is non-contiguous to and not part of the Flowerfield complex in Smithtown, New York for a purchase price of \$

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to BSL St. James LLC, a Delaware limited liability company ("BSL"). The Agreement provided that BSL would have the right to terminate the BSL Agreement by written notice to GSD Flowerfield prior to the expiration of a defined inspection period (which had been extended via amendments to the BSL Agreement) if BSL was not fully satisfied, in BSL's sole discretion, as to the status of title, suitability of the Property and all factors concerning same, in which case BSL would have the right to receive a refund of its earnest money deposit.

On March 16, 2021, the Company received a notice (the "BSL Termination Notice") from BSL that it is terminating the BSL Agreement. The BSL Termination Notice referenced the foregoing termination right and requested the return of the earnest money deposit to BSL in accordance with the provisions of the BSL Agreement. Such earnest money deposit has been returned to BSL.

The BSL Agreement Property is included in the Company's subdivision application with the Town of Smithtown, New York, to subdivide the entire Flowerfield property into eight separate parcels (one parcel of which is a catering hall facility sold by the Company in 2002). The Company believes the termination of the BSL Agreement should have no impact on the subdivision application and will continue to actively market its entire Flowerfield property on the basis of eight subdivided lots subject to and contingent upon approvals for the subdivision and related entitlements.

Cortlandt Manor - As of December 7, 2019, the Company's wholly owned subsidiaries GSD Cortlandt, LLC, a New York limited liability company and Buttonwood Acquisitions, LLC (together the "Cortlandt Subsidiaries"), executed a Purchase and Sale Agreement (the "SC Agreement") for the sale of approximately

4.5

acres of its real property located in Cortlandt Manor, New York, together with improvements thereon (the "SC Agreement Property") to Sound Cortlandt, LLC, a Delaware limited liability company ("SC LLC") for a purchase price of \$

5,720,000

The SC Agreement provided that SC LLC would have the right to terminate the SC Agreement by written notice to the Cortlandt Subsidiaries prior to the expiration of a defined inspection period (which had been extended via amendments to the SC Agreement) if SC LLC was not fully satisfied, in SC LLC's sole discretion, as to the status of title, suitability of the SC Agreement Property and all factors concerning same, in which case SC LLC would have the right to receive a refund of its earnest money deposit.

On February 1, 2021, the Company received a notice (the "SC Termination Notice") from SC, LLC that it is terminating the SC Agreement. The SC Termination Notice referenced the foregoing termination right and called for the Escrow Agent (as defined in the SC Agreement) to return the earnest money deposit immediately to SC LLC in accordance with the provisions of the SC Agreement. Such earnest money deposit has been returned to SC LLC.

▶ **7. Loans Payable**

The Company secured a non-revolving credit line for up to \$

3,000,000

(the "Original Line") with a bank, which closed on March 21, 2018. The original line included an interest only phase for the first eight

months of the loan (as amended the "Interest-Only Phase"). The Company amended and extended the Original Line which included extending the conversion date of the Interest-Only Phase to the earlier of April 30, 2021 or upon drawing down a total of \$

3,000,000

after which it automatically converts to a permanent loan maturing on the earlier of April 30, 2028 or

84

months after conversion to a permanent loan (the "Permanent Phase"). On April 30, 2021, the loan converted to the Permanent Phase with an outstanding principal balance of \$

2,200,000

. During the Permanent Phase, the Company is paying interest at a fixed rate based on the Federal Home Loan Bank rate for a

7

-year maturity as made available by the Federal Home Loan Bank of New York plus a margin of

200

basis points (2%) rounded up to the nearest 1/8 percent, but shall not be less than

3.85

%, plus principal based on a

20

-year amortization period. The Permanent Phase interest rate currently is

3.85

%.

The first advance of \$

1.1

million was used to finance the tenant improvements pursuant to the amended and expanded signed lease with Stony Brook University Hospital ("SBU Hospital"). An additional advance of \$

1.1

million was drawn on March 29, 2019 to finance the buildouts on leases signed through December 31, 2018. The remaining \$

800,000

went unused and the Company no longer has access to that amount.

To secure access to additional working capital through the final sale date of the Flowerfield industrial buildings, the Company secured a second loan evidenced by a non-revolving business line of credit agreement and promissory note with the Original Line bank for up to \$

3,000,000

, which closed on January 24, 2019. This loan included an interest only phase for the first

twenty-four

months of the loan ("Interest-Only Phase") after which it automatically converts to a permanent loan maturing on January 20, 2028 (

84

months after conversion to a permanent loan) (the "Permanent Phase"). The Company amended and extended the line which included extending the conversion date of the Interest-Only Phase to May 20, 2021 after which it automatically converts to a permanent loan maturing on May 20, 2028 (

84

months after conversion to a permanent loan). On May 20, 2021, the loan converted to the Permanent Phase with an outstanding principal balance of \$

3,000,000

. During the Permanent Phase, the Company pays interest at a fixed rate based on the Federal Home Loan Bank rate for a

7

-year maturity as made available by the Federal Home Loan Bank of New York plus a margin of

200

basis points (2%) rounded up to the nearest 1/8 percent, but shall not be less than

3.85

%, plus principal based on a

20

-year amortization period. The Permanent Phase interest rate currently is

3.85

%.

Both lines are secured by approximately

31.8

acres of the Flowerfield Industrial Park including the related buildings and leases. As of December 31, 2020, the Company is in compliance with the loan covenants. The Company anticipates modifying the terms of the loans following the completion of the subdivision so that the loans remain secured by the subdivided industrial park lot only.

To secure access to additional working capital, the Company, through its subsidiary GSD Cortlandt, LLC ("GSD Cortlandt") secured a loan evidenced by a non-revolving business line of credit agreement and promissory note with the Original Line bank for up to \$

2,500,000

which closed on July 16, 2020. The term is

24

months, with an option to extend for an additional 12 months. The interest rate is a variable rate equal to the daily highest prime rate

The first advance of \$

1.1 million was used to finance the tenant improvements pursuant to the amended and expanded signed lease with Stony Brook University Hospital (“SBU Hospital”). An additional advance of \$

1.1 million was drawn on March 29, 2019 to finance the buildouts on leases signed through December 31, 2018. The remaining \$ 800,000 went unused and the Company no longer has access to that amount.

To secure access to additional working capital through the final sale date of the Flowerfield industrial buildings, the Company secured a second loan evidenced by a non-revolving business line of credit agreement and promissory note with the Original Line bank for up to \$

3,000,000, which closed on January 24, 2019. This loan included an interest only phase for the first twenty-four

months of the loan (“Interest-Only Phase”) after which it automatically converts to a permanent loan maturing on January 20, 2028 (84

months after conversion to a permanent loan) (the “Permanent Phase”). The Company amended and extended the line which included extending the conversion date of the Interest-Only Phase to May 20, 2021 after which it automatically converts to a permanent loan maturing on May 20, 2028 (84

months after conversion to a permanent loan). On May 20, 2021, the loan converted to the Permanent Phase with an outstanding principal balance of \$

3,000,000. During the Permanent Phase, the Company pays interest at a fixed rate based on the Federal Home Loan Bank rate for a

7-year maturity as made available by the Federal Home Loan Bank of New York plus a margin of 200

basis points (2%) rounded up to the nearest 1/8 percent, but shall not be less than 3.85

%, plus principal based on a 20-year amortization period. The Permanent Phase interest rate currently is 3.85

%.

Both lines are secured by approximately

31.8 acres of the Flowerfield Industrial Park including the related buildings and leases. As of December 31, 2020, the Company is in compliance with the loan covenants. The Company anticipates modifying the terms of the loans following the completion of the subdivision so that the loans remain secured by the subdivided industrial park lot only.

To secure access to additional working capital, the Company, through its subsidiary GSD Cortlandt, LLC (“GSD Cortlandt”) secured a loan evidenced by a non-revolving business line of credit agreement and promissory note with the Original Line bank for up to \$

2,500,000 which closed on July 16, 2020. The term is 24

months, with an option to extend for an additional 12 months. The interest rate is a variable rate equal to the daily highest prime rate published by the Wall Street Journal plus

100 basis points (1%), rounded up to the nearest 1/8 percent, but in no event less than four and three quarters percent (4.75

%). The terms of the loan originally limited access to certain amounts, contingent upon GSD Cortlandt securing purchase agreements for one or both Cortlandt Property lots. On February 22, 2021, the loan was amended to remove such limitation on draws. Advances of \$

379,765 and \$ 670,235, were drawn at closing and on January 28, 2021, respectively. Under the line, a balance of \$

1,450,000 is available at the Lender’s discretion.

The line is secured by the Cortlandt property (13.8

acres) and cross collateralized by

31.8 acres of the Flowerfield Industrial Park including the related buildings and leases. The Company anticipates modifying the terms of the loans following the completion of the subdivision so that the loans remain cross collateralized by the subdivided industrial park lot only.

The loans payable mature upon the earlier of the sale of the Flowerfield Industrial Park or as follows:

Years Ending June 30,	
2022	\$ <u>176,908</u>
2023	<u>183,841</u>
2024	<u>1,241,044</u>
2025	<u>198,531</u>
2026	<u>206,311</u>
Thereafter	<u>4,223,164</u>
Total	<u>\$6,229,799</u>

▶ **8. Accounts payable and Accrued Liabilities**

	Accounts Payable			Accrued Liabilities	
	June 30, 2021	December 31, 2020		June 30, 2021	December 31, 2020
Current accounts payable	\$ <u>232,503</u>	\$ <u>241,963</u>	Accrued liabilities	\$ <u>203,875</u>	\$ <u>188,554</u>
Other accounts payable (a)	<u>812,051</u>	<u>651,220</u>	Deferred Compensation to Directors (b)	<u>552,067</u>	<u>368,372</u>
Total	\$ <u>1,044,554</u>	\$ <u>893,183</u>	Total	\$ <u>755,942</u>	\$ <u>556,926</u>

- (a) The Company reached agreements with certain service vendors to defer payment until the closing of the first property lot sale that is the subject of either the Flowerfield or Cortlandt Manor subdivision, respectively.
- (b) 100 % of his fees for 2021 and 2020. This amount also includes the deferred compensation of a Board advisor per an agreement to defer payments due.

▶ **9. Income Taxes**

As a limited liability company, Gyrodyne is not subject to an entity level income tax but rather is treated as a partnership for tax purposes, with its items of income, gain, deduction, loss and credit being reported on the Company’s information return, on Form 1065, and allocated annually on Schedule K-1 to its members pro rata. The Company’s open tax years are 2018, 2019, and 2020.

The Bipartisan Budget Act of 2015 (the “2015 Act”) changed the procedure for partnership tax audits and audit adjustments for partnership returns of large partnerships for fiscal years beginning after December 31, 2017. Pursuant to the 2015 Act, if any audit by the IRS of our income tax returns for any fiscal year beginning after December 31, 2017 results in any adjustments, the IRS may collect any resulting taxes, including any applicable penalties and interest, directly from Gyrodyne. IRS tax audit assessments on tax years beginning January 1, 2018 will require Gyrodyne to: a) bear any tax liability resulting from such audit, or b) elect to push out the tax audit adjustments to the respective shareholders once it has been calculated at the company level.

▶ **10. Credit Quality of Rents Receivable**

The Company’s standard lease terms include rent due on the first of the month. The Company credit terms extend a standard ten-day grace period across its tenant portfolio and do not normally provide extensions beyond one year.

The Company manages its billing and collection process internally to enable timely identification of collection issues. The controls and related processes enable the Company to timely identify and establish payment plans to minimize material losses from defaults. In accordance with generally accepted accounting principles, the Company identifies high risk collectibles, records them on a cash basis and does not include them in revenue or accounts receivable.

▶ **9. Income Taxes** ◀

As a limited liability company, Gyrodyne is not subject to an entity level income tax but rather is treated as a partnership for tax purposes, with its items of income, gain, deduction, loss and credit being reported on the Company’s information return, on Form 1065, and allocated annually on Schedule K-1 to its members pro rata. The Company’s open tax years are 2018, 2019, and 2020.

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▶ **10. Credit Quality of Rents Receivable** ◀

The Company’s standard lease terms include rent due on the first of the month. The Company credit terms extend a standard ten-day grace period across its tenant portfolio and do not normally provide extensions beyond one year.

The Company manages its billing and collection process internally to enable timely identification of collection issues. The controls and related processes enable the Company to timely identify and establish payment plans to minimize material losses from defaults. In accordance with generally accepted accounting principles, the Company identifies high risk collectibles, records them on a cash basis and does not include them in revenue or accounts receivable.

▶ **11. Concentration of Credit Risk** ◀

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents. The Company places its temporary cash investments with high credit quality financial institutions and generally limits the amount of credit exposure in any one financial institution. The Company maintains bank account balances, which exceed insured limits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash. Management does not believe significant credit risk existed on June 30, 2021 and December 31, 2020. As the Company executes on the sale of its assets, its regional concentration in tenants will lessen thereby resulting in the increased credit risk from exposure of the local economies.

For the six months ended June 30, 2021 rental income from the Company’s three largest tenants represented approximately

23
%,
22
% and
9

% of total rental income. The three largest tenants by revenue as of June 30, 2021 consist of Stony Brook University Hospital located in the industrial park, the Westchester Medical Practice in the Cortlandt Manor Medical Center and Apex Gymnastics Athletics Inc. in the industrial park.

The current economic challenges facing state and local budgets impacted most of the Company’s largest tenants. In addition, the current economic challenges stemming from the coronavirus are disproportionately impacting not-for-profit tenants and other tenants that are neither medical offices nor part of or affiliated with SBU or SBU Hospital which together comprise

40
% of our expected 2021 rental revenue. There can be no assurance that the Company’s leases will renew for the same square footage, at favorable rates net of tenant improvements, if at all.

▶ **12. Commitments** ◀

As of June 30, 2021, other commitments and contingencies are summarized in the below table:

Management employment agreements with bonus* and severance commitment contingencies	<u>\$350,000</u>
Other employee severance commitment contingencies	<u>81,716</u>
Total	<u>\$431,716</u>

*Excludes Retention Bonus Payments

Employment agreements - The Company has an employment agreement with its Chief Executive Officer. The agreement provides for a bonus of \$

125,000

payable upon a change of control as defined in the agreement. In addition, the agreement provides for severance equivalent to 6 months of base salary and the vesting and related payment of the change of control bonus.

The Company also has an employment agreement with its Chief Operating Officer (“COO”) executed on May 8, 2014 which provides for severance on a termination without cause equal to 6 months of base salary. On January 25, 2018, Gyrodyne entered into an amendment to the employment agreement with the COO to define with greater specificity the COO’s duties and responsibilities with respect to the Company’s properties.

Under Company policy the aggregate severance commitment contingency to other employees is approximately \$

81,716

Retention Bonus Plan- In May 2014, the Board of Directors approved a retention bonus plan (as amended, the “Plan”) designed to recognize the nature and scope of the responsibilities of our directors, executives and employees related to the Company’s strategic plan to enhance the property values, liquidate and dissolve, to reward and incent performance in connection therewith, to align the interests of directors, executives and employees with our shareholders and to retain such persons during the term of such plan. The Plan provides for bonuses to directors and to officers and employees determined by the gross sales proceeds from the sale of each property and the date of sale. The summary appearing below reflects the terms set forth in the Plan as modified by three amendments. There have been no further amendments to the terms of the Plan during the current reporting period.

The Plan provides for a bonus pool funded with an amount equal to

5

% of the specified appraised value of such properties (set forth in the Plan), so long as the gross selling price of a property is at least equal to its 2013 appraised value as designated in the bonus plan. Additional funding of the bonus pool will occur on a property-by-property basis only if the gross sales price of a property exceeds the Adjusted Appraised Value defined as the sum of (i) its 2013 appraised value and (ii) land development costs incurred on a property since the date of the 2013 appraisal, as follows:

10

% on the first 10% of appreciation,

15

% on the next 10% of appreciation and

20

% on appreciation greater than 20%.

The bonus pool is distributable in the following proportions to the named participants in the bonus plan for so long as they are directors or employees of the Company:

Board Members/Employees	Bonus Pool Percentage	
Board Members(a)	<u>65.000</u>	%
Chief Executive Officer	<u>15.474</u>	%
Chief Operations Officer	<u>13.926</u>	%
Officer Discretionary Amount (b)	<u>1.750</u>	%
Other Employees	<u>3.850</u>	%
Total	<u>100.000</u>	%

(a) 15

% for the Chairman and

10

% for each of the other five directors.

(b) The officer discretionary amount of

1.75

% will be allocated to the officers within the discretion of the Board.

Such shares of the bonus pool are earned only upon the completion of the sale of a property at a gross selling price equal to or greater than its Adjusted Appraised Value and is paid to the named beneficiaries of the Plan or their designees within 60 days of the completion of such sale or, if later, within 60 days of receipt of any subsequent post-completion installment payment related to such sale.

The Plan provides that no benefits are to be paid to participants from the sale of any individual post-subdivided lot from either of the Company’s Flowerfield or Cortlandt Manor properties until aggregate sale proceeds from all sales of post-subdivided lots from such property exceed a designated aggregate floor for such property. The aggregate floor for each of the Flowerfield and Cortlandt Manor properties is defined in Amendment No. 3 to the Plan as the 2013 appraisal of such property plus land development costs incurred for such property since such appraisal.

Employment agreements - The Company has an employment agreement with its Chief Executive Officer. The agreement provides for a bonus of \$ 125,000

payable upon a change of control as defined in the agreement. In addition, the agreement provides for severance equivalent to 6 months of base salary and the vesting and related payment of the change of control bonus.

The Company also has an employment agreement with its Chief Operating Officer (“COO”) executed on May 8, 2014 which provides for severance on a termination without cause equal to 6 months of base salary. On January 25, 2018, Gyrodyne entered into an amendment to the employment agreement with the COO to define with greater specificity the COO’s duties and responsibilities with respect to the Company’s properties.

Under Company policy the aggregate severance commitment contingency to other employees is approximately \$ 81,716

Retention Bonus Plan- In May 2014, the Board of Directors approved a retention bonus plan (as amended, the “Plan”) designed to recognize the nature and scope of the responsibilities of our directors, executives and employees related to the Company’s strategic plan to enhance the property values, liquidate and dissolve, to reward and incent performance in connection therewith, to align the interests of directors, executives and employees with our shareholders and to retain such persons during the term of such plan. The Plan provides for bonuses to directors and to officers and employees determined by the gross sales proceeds from the sale of each property and the date of sale. The summary appearing below reflects the terms set forth in the Plan as modified by three amendments. There have been no further amendments to the terms of the Plan during the current reporting period.

The Plan provides for a bonus pool funded with an amount equal to

5 % of the specified appraised value of such properties (set forth in the Plan), so long as the gross selling price of a property is at least equal to its 2013 appraised value as designated in the bonus plan. Additional funding of the bonus pool will occur on a property-by-property basis only if the gross sales price of a property exceeds the Adjusted Appraised Value defined as the sum of (i) its 2013 appraised value and (ii) land development costs incurred on a property since the date of the 2013 appraisal, as follows:

- 10 % on the first 10% of appreciation,
- 15 % on the next 10% of appreciation and
- 20 % on appreciation greater than 20%.

The bonus pool is distributable in the following proportions to the named participants in the bonus plan for so long as they are directors or employees of the Company:

Board Members/Employees	Bonus Pool Percentage
Board Members(a)	<u>65.000</u> %
Chief Executive Officer	<u>15.474</u> %
Chief Operations Officer	<u>13.926</u> %
Officer Discretionary Amount (b)	<u>1.750</u> %
Other Employees	<u>3.850</u> %
Total	<u>100.000</u> %

- (a) 15 % for the Chairman and 10 % for each of the other five directors.
- (b) The officer discretionary amount of

1.75 % will be allocated to the officers within the discretion of the Board.

Such shares of the bonus pool are earned only upon the completion of the sale of a property at a gross selling price equal to or greater than its Adjusted Appraised Value and is paid to the named beneficiaries of the Plan or their designees within 60 days of the completion of such sale or, if later, within 60 days of receipt of any subsequent post-completion installment payment related to such sale.

The Plan provides that no benefits are to be paid to participants from the sale of any individual post-subdivided lot from either of the Company’s Flowerfield or Cortlandt Manor properties until aggregate sale proceeds from all sales of post-subdivided lots from such property exceed a designated aggregate floor for such property. The aggregate floor for each of the Flowerfield and Cortlandt Manor properties is defined in Amendment No. 3 to the Plan as the 2013 appraisal of such property plus land development costs incurred for such property since such appraisal.

The Plan provides for vesting of benefits upon the sale of each individual post-subdivision lot at Flowerfield and Cortlandt Manor. It also provides for entitlement to a future benefit in the event of death, voluntary termination following substantial reduction in compensation or board fees, mutually agreed separation to right-size the board or involuntary termination without cause, except that a participant will only be eligible to receive a benefit to the extent that a property is sold within three years following the separation event and the sale produces an internal rate of return equal to at least four percent of the property's value as of December 31 immediately preceding such event and that the sale exceeded the Adjusted Appraised Value.

Under the Plan, there were

no

payments made during the six months ended June 30, 2021.

Deferred Compensation Plan - On December 6, 2019, the Company's Board of Directors approved the Gyrodyne, LLC Nonqualified Deferred Compensation Plan for Employees and Directors (the "DCP") effective as of January 1, 2020. The DCP is a nonqualified deferred compensation plan maintained for officers and directors of the Company. Under the DCP, officers and directors may elect to defer a portion of their compensation to the DCP and receive interest on such deferred payments at a fixed rate of

5

% . All DCP benefits will be paid in a single lump sum cash payment on December 15, 2026, unless a Plan of Liquidation is established for Gyrodyne before the distribution date in which case all benefits will be paid in a single lump sum cash payment after execution of an amendment to terminate the DCP. Each of the Directors elected (under the DCP) to defer

100

% of their director fees for 2020 and 2021.

13. Contingencies

Putative Class Action Lawsuit - On August 14, 2015, the Company entered a Stipulation of Settlement (the "Settlement") providing for the settlement of a putative class action lawsuit against the Company and certain related parties. Under the Settlement, Gyrodyne agreed that any sales of its properties would be effected only in arm's-length transactions at prices at or above their appraised values as of 2014.

As of June 30, 2021 and December 31, 2020, the value of the remaining unsold properties exceeded the respective 2014 appraised value.

General - In the normal course of business, the Company is a party to various legal proceedings. After reviewing all actions and proceedings pending against or involving the Company, management considers that any loss resulting from such proceedings individually or in the aggregate will not be material to the Company's financial statements.

▶ 14. Fair Value of Financial Instruments ◀

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

The Company follows authoritative guidance on the fair value option for financial assets, which permits companies to choose to measure certain financial instruments and other items at fair-value in order to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently. However, the Company adopted the liquidation basis of accounting, and therefore reports all assets and liabilities at net realizable value.

The guidance emphasizes that fair-value is a market-based measurement, not an entity-specific measurement. Therefore, a fair-value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair-value measurements, the guidance establishes a fair-value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy, as defined under FASB ASC Topic No. 820, Fair Value Measurements) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). In instances where the determination of the fair-value measurement is based on inputs from different levels of the fair-value hierarchy, the level in the fair-value hierarchy within which the entire fair-value measurement falls is based on the lowest level input that is significant to the fair-value measurement in its entirety. Our assessment of the significance of a particular input to the fair-value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Fair Value Measurements - The Company adopted the liquidation basis of accounting effective September 1, 2015; accordingly, the Company reports all real estate at their net realizable value.

Deferred Compensation Plan - On December 6, 2019, the Company's Board of Directors approved the Gyrodyne, LLC Nonqualified Deferred Compensation Plan for Employees and Directors (the "DCP") effective as of January 1, 2020. The DCP is a nonqualified deferred compensation plan maintained for officers and directors of the Company. Under the DCP, officers and directors may elect to defer a portion of their compensation to the DCP and receive interest on such deferred payments at a fixed rate of

5
%. All DCP benefits will be paid in a single lump sum cash payment on December 15, 2026, unless a Plan of Liquidation is established for Gyrodyne before the distribution date in which case all benefits will be paid in a single lump sum cash payment after execution of an amendment to terminate the DCP. Each of the Directors elected (under the DCP) to defer

100
% of their director fees for 2020 and 2021.

13. Contingencies

Putative Class Action Lawsuit - On August 14, 2015, the Company entered a Stipulation of Settlement (the "Settlement") providing for the settlement of a putative class action lawsuit against the Company and certain related parties. Under the Settlement, Gyrodyne agreed that any sales of its properties would be effected only in arm's-length transactions at prices at or above their appraised values as of 2014.

As of June 30, 2021 and December 31, 2020, the value of the remaining unsold properties exceeded the respective 2014 appraised value.

General - In the normal course of business, the Company is a party to various legal proceedings. After reviewing all actions and proceedings pending against or involving the Company, management considers that any loss resulting from such proceedings individually or in the aggregate will not be material to the Company's financial statements.

14. Fair Value of Financial Instruments

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

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Fair Value Measurements - The Company adopted the liquidation basis of accounting effective September 1, 2015; accordingly, the Company reports all real estate at their net realizable value.

The Company estimates the net realizable value of its real estate assets by using income and market valuation techniques. The Company may estimate net realizable values using market information such as broker opinions of value, appraisals, and recent sales data for similar assets or discounted cash flow models, which primarily rely on Level 3 inputs. The cash flow models include estimated cash inflows and outflows over a specified holding period. These cash flows may include contractual rental revenues, projected future rental revenues and expenses and forecasted capital improvements and lease commissions based upon market conditions determined through discussion with local real estate professionals and relevant Company experience with its current and previously owned properties. Capitalization rates and discount rates utilized in these models are estimated by management based upon rates that management believes to be within a reasonable range of current market rates for the respective properties based upon an analysis of factors such as property and tenant quality, geographical location and local supply and demand observations. To the extent, the Company underestimates or overestimates forecasted cash outflows (capital improvements, lease commissions and operating costs) or overestimates or understates forecasted cash inflows (rental revenue rates), the estimated net realizable value of its real estate assets could be overstated or understated.

▶ 15. COVID-19

The COVID-19 pandemic and the various governmental and market responses intended to contain and mitigate the spread of the virus and its detrimental public health impact, as well as the general uncertainty surrounding the dangers and impact of the pandemic, continue to have a significant impact on the U.S. economy, including the real estate market. To date, the COVID-19 pandemic has impacted operations of our existing properties, and we believe it has had an impact on our strategic plan to enhance the value of our properties and sell them at higher prices. In particular, the pandemic has reduced the gross profit from operations and has been a significant factor in prolonging the entitlement process. We believe it was also a major factor leading to the termination in the first quarter by the purchasers in two purchase agreements for the sale of portions of our Cortlandt Manor and Flowerfield Properties.

The U.S. economy has been growing as COVID-19 vaccinations are increasingly administered, commercial activities increasingly return to pre-pandemic practices and operations, and as a result of recent and expected future government spending on COVID-19 pandemic relief, infrastructure and other matters. However, this favorable outlook could be affected materially by adverse developments, if any, related to the COVID-19 pandemic, including resurgence of COVID-19 cases due to more contagious variants, such as the Delta variant, or new or more restrictive public health requirements recommended or imposed by federal, state and local authorities. There remains uncertainty as to the ultimate duration and severity of the pandemic on commercial activities, including risks that may arise from mutations or related strains of the virus, and the ability to successfully administer vaccinations to a sufficient number of persons or attain immunity to the virus by natural or other means to achieve herd immunity. Until the COVID-19 pandemic has been resolved as a public health crisis, it retains the potential to cause further and more severe disruption of global and national economies, cause political uncertainty and civil unrest, and diminish consumer confidence, all of which could impact the local real estate market and our business.

Beginning March 16, 2020, the Company’s employees began temporarily working remotely to ensure their and their family’s safety and well-being. The Company’s technology infrastructure, for some time, has been set up to handle offsite seamless operations to respond to disaster recovery disruption. As a result, all employees will continue to work remotely unless they report needing sick leave or family leave pursuant to regulated benefits.

Small businesses have been and are expected to continue to be adversely affected disproportionately by the economic ramifications of COVID-19. In terms of its own tenants, the Company deems as small businesses those that are neither part of or affiliated with Stony Brook University or SBU Hospital, non-medical offices and not-for-profit corporations, which in the aggregate account for approximately

40
% of \$
888,000

) of the Company’s projected annual rental revenues for 2021. Although it is difficult to estimate the duration and full extent of the COVID-19 pandemic, its impact on our future results could be significant and will largely depend on future developments which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the novel coronavirus, risks that may arise from mutations or related strains of the virus, the success of actions taken to contain or treat COVID-19 and reactions by real estate developers and investors, consumers, companies, governmental entities and capital markets. We are actively working with our tenants to manage and mitigate the impact of COVID-19 on the Company’s operations, liquidity and resulting Net Asset Value.

The extent of the impact of COVID-19 on the Company's operational and financial performance and ultimately its Net Asset Value, will depend on current and future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions and the effectiveness of the COVID-19 vaccine program. In addition, the pandemic has resulted in a seismic shift toward commercial acceptance of remote working and telemedicine which may adversely impact our occupancy rate and average rate per square foot. The Company’s ability to operate seamlessly and limit any adverse impact on its forecasted net asset value will also depend, in part, on whether any of its key employees or key advisers are infected by the Coronavirus and become ill from COVID-19.

As a result of the foregoing developments, we are unable to determine what the ultimate impact will be on our timeline for seeking entitlements and selling properties, and ultimately on the amount proceeds and distributions from those sales. For more information and risks relating to the pandemic on us and our business, see “Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations – COVID-19 Pandemic” and Part I, Item 1A, “Risk Factors”, of our Annual Report for the year ended December 31, 2020 and as amended in this Report on Form 10-Q.

▶ 16. Related Party Transactions

The Company has entered into various leasing arrangements with a not-for-profit organization of which the Company’s Chairman,

▶ 16. Related Party Transactions

The Company has entered into various leasing arrangements with a not-for-profit organization of which the Company’s Chairman, Paul Lamb, serves as Chairman and a director but receives no compensation or any other financial benefit. A summary of the leasing arrangements is as follows:

Term	Square Feet	Annual Rent	Total Commitment (net of abatement, excluding renewal options)
Jan 2021-Dec 2022	<u>2,284</u>	<u>\$19,414</u>	<u>\$38,828</u>
Jan 2021-Dec 2022	<u>1,817</u>	<u>-(a)</u>	<u>-(a)</u>
Jan 2021-Dec 2022	<u>1,905</u>	<u>\$16,193</u>	<u>\$32,385</u>

(a)The Company understood that the tenant’s main intent was to sublease the space to artists, on a short-term basis, after which such subtenant artists would transition into their own space leased directly from the Company. Under the master lease, the tenant has the right to sublease the space without prior written consent for use as an art studio, art school or related use. Under the terms of the master lease, rent is payable by the tenant only to the extent the space is sublet, at the rent amount per square foot payable by the subtenant up to a maximum of \$

10
per square foot per year. The maximum annual and total lease commitment of up to \$

18,170

and \$

36,340

, respectively. Any space not subleased may be used by the tenant rent-free for certain stated art uses, although the tenant is responsible for certain passthrough expenses such as electric and heat. Since rent is only due if the space is sublet, the Company believes the fair value of the space to the extent not sublet reflects a below market lease over the six months ending June 30, 2021 of \$

9,085

and total commitments of up to \$

36,340

During the six-months ended June 30, 2021, the Company received rental revenue of \$

17,804

related to these lease agreements.

The independent members of the Board of the Company approved all of the leasing transactions described above.

The Chairman is also a partner of the firm Lamb & Barnosky, LLP that provided pro bono legal representation to the aforementioned not-for-profit corporation on the lease.

▶ 17. Subsequent Events

In August 2021, the Company, through its subsidiary GSD Cortlandt, LLC (“GSD Cortlandt”), executed a commitment letter for a \$

4.95
million term loan (“Mortgage Loan”), a portion of the proceeds will be used to pay off the existing GSD Cortlandt debt facility of which \$

1,050,000

is outstanding. The term of the Mortgage Loan is

five

years with an option to extend an additional

five

years (“Extension Period”). Until the initial maturity date, the Mortgage Loan shall bear interest at an annual rate of interest equal at all times to

3.75

%. If the maturity date is extended for the Extension Period, the rate of interest on the Mortgage Loan shall adjust and be fixed for the Extension Period to an annual rate of interest equal at all times to the greater of (i)

3.75

% or (ii)

275

basis points in excess of the weekly average yield on United States Treasury Securities adjusted to a constant maturity of five years as

most recently made available by the Federal Reserve Board as of thirty days prior to the first day of the extended term. The Mortgage Loan will be paid in monthly installments of principal and interest calculated on the basis of a thirty-year amortization schedule. If the maturity date is extended for the Extension Period, the amount of each monthly installment shall be recalculated for the Extension Period based on the adjusted interest rate on the Mortgage Loan and an amortization schedule of twenty-five years.

The Mortgage Loan may be prepaid in whole or in part, at any time, provided that the borrower shall pay to the bank with each such prepayment a prepayment fee equal to (i) during the first loan year and, if applicable, the first loan year of the Extension Period,

five

percent of the amount of such prepayment; (ii) during the second loan year and, if applicable, during the second loan year of the Extension Period,

four

percent of the amount of such prepayment; (iii) during the third loan year and, if applicable, during the third loan year of the Extension Period,

three

percent of the amount of such prepayment; (iv) during the fourth loan year and, if applicable, during the fourth loan year of the Extension Period,

two

percent of the amount of such prepayment; and (v) during the fifth loan year and, if applicable, during the fifth year of the Extension Period,

one

percent of the amount of such prepayment. There shall be no prepayment fee for any prepayment made during the sixty day period immediately preceding the initial maturity date or the last sixty days of the Extension Period. All prepayments shall be accompanied with accrued and unpaid interest through the date of prepayment. Notwithstanding the foregoing, in the event the premises are sold to a bona fide third-party purchaser within the initial two years of the term of the Mortgage Loan, the prepayment fee to be paid upon repayment of the Mortgage Loan in full shall be reduced by

fifty

percent.

The loan will be secured by the Cortlandt property located at 1985 Crompond Road (

5.01

acres) and is expected to close in the third quarter of 2021.

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

When we use the terms “Gyrodyne,” the “Company,” “we,” “us,” and “our,” we mean Gyrodyne, LLC and all entities owned or controlled by us, including non-consolidated entities. References to “common shares” in this report refer to Gyrodyne, LLC’s common shares representing limited liability company interests. References herein to our Quarterly Report are to this Quarterly Report on Form 10-Q for the six-months ended June 30, 2021.

Cautionary Statements Concerning Forward-Looking Statements

The statements made in this Form 10-Q 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, and other variations or comparable terminology as well as statements regarding the evaluation of strategic alternatives and liquidation contingencies. These forward-looking statements are based on the current plans and expectations of management and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those reflected in such forward-looking statements. Such risks and uncertainties include, but are not limited to, risks and uncertainties relating to our efforts to enhance the values of our remaining properties and seek the orderly, strategic sale of such properties as soon as reasonably practicable, the effect of economic and business conditions, risks inherent in the real estate markets of Suffolk and Westchester Counties in New York, the ability to obtain additional capital in order to enhance the value of the Flowerfield and Cortlandt Manor properties, the potential effects of the ongoing COVID-19 pandemic on our business, operations and timelines for seeking entitlements and pursuing the sale of our properties and distributions to our shareholders, risks and uncertainties associated with community activism, regulatory enforcement and any litigation that may develop in connection with our efforts to sell our properties strategically, including related enhancement efforts, and other risks detailed from time to time in the Company’s SEC reports. These and other matters the Company discusses in this Report, or in the documents it incorporates by reference into this Report, may cause actual results to differ from those the Company describes. The Company assumes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. In particular, it is difficult to fully assess the impact of COVID-19 at this time due to, among other factors, uncertainty regarding the continuing severity and duration of the outbreak, uncertainty regarding the effectiveness of federal, state and local governments’ efforts to contain the spread of COVID-19 and respond to its direct and indirect impact

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Overview

Gyrodyne, LLC (including its subsidiaries, “Gyrodyne”, the “Company” or the “Registrant”) is a limited liability company formed under the laws of the State of New York whose primary business is the management of a portfolio of medical office and industrial properties and the pursuit of entitlements on such properties located in Suffolk (“Flowerfield”) and Westchester (“Cortlandt Manor”) Counties, New York.

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

Gyrodyne’s corporate strategy is to enhance the value of Flowerfield and Cortlandt Manor by pursuing entitlement opportunities and enhancing the value of its leases. The Board believes the aforementioned strategy will increase the values for such properties. The value of the real estate reported in the consolidated statement of net assets as of June 30, 2021 (predicated on current asset values) includes some, but not all of the potential value impact that may result from such value enhancement efforts. There can be no assurance that our value enhancement efforts will result in property value increases that exceed the costs we incur in such efforts, or even any increase at all.

Our efforts to generate the highest values for Flowerfield and Cortlandt Manor may involve in limited circumstances various other strategies to enhance the net value of Flowerfield and Cortlandt Manor to maximize the returns for our shareholders. Gyrodyne intends to dissolve after it completes the disposition of all of its real property assets, applies the proceeds of such dispositions first to settle any debts and claims, pending or otherwise, against Gyrodyne, and then makes liquidating distributions to holders of Gyrodyne common shares. The process of seeking entitlements to enhance property values and the amount and timing of distributions from proceeds of asset sales involve risks and uncertainties. As such, it is impossible at this time to determine the ultimate amount of proceeds that will actually be distributed to our shareholders or the timing of such payments. Accordingly, no assurance can be given that the distributions will equal or exceed the estimate of net assets presented in our Consolidated Statements of Net Assets. The actual nature, amount and timing of all distributions will be determined by Gyrodyne’s Board in its sole discretion and will depend in part upon the Company’s ability to convert our remaining assets into cash in compliance with our obligations under the Stipulation of Settlement entered into in connection with the class action lawsuit (See Item 1 – Legal Proceedings) and settle and pay our remaining liabilities and obligations. Under Gyrodyne’s Amended and Restated Limited Liability Company Agreement (the “LLC Agreement”), dissolution of the Company may be effected upon the vote of holders of a majority of Gyrodyne common shares or, in the Board’s discretion and without any separate approval by the holders of Gyrodyne common shares, at any time the value of Gyrodyne’s assets, as determined by the Board in good faith, is less than \$1,000,000.

We remain committed on (1) enhancing the net value of Flowerfield and Cortlandt Manor to maximize the returns for our shareholders, (2) completing the disposition of our assets, (3) making timely distributions to our shareholders, (4) managing capital and liquidity, (5) mitigating risks relating to interest rates and real estate cycles and (6) completing the liquidation of the Company.

After giving effect to the Company's dispositions of real property through June 30, 2021, the Company owns the following properties:

- Cortlandt Manor: 13.8 acres in Cortlandt Manor, New York, including the 34,000 square foot Cortlandt Medical Center; and
- Flowerfield: 63 acres in St. James, New York, including a 10-acre multi-tenanted industrial park comprising 127,000 rentable square feet. There were an additional 5 acres comprising of two parcels that were zoned residential and non-contiguous to the Flowerfield property which the Company sold in April 2021.

Each of the medical office park in Cortlandt Manor and the Flowerfield Industrial Park (including its undeveloped portion) is individually owned in a single asset limited liability company wholly owned by the Company.

Strategic Plan to Enhance Property Values, Liquidate, Distribute Proceeds and Dissolve

Our corporate strategy is to pursue entitlement opportunities intended to increase the values of our two remaining properties so that they can be sold to one or more developers at higher prices (than those achievable under their current entitlements) that will maximize value and distributions. Gyrodyne intends to dissolve after it completes the disposition of all of its real property assets, applies the proceeds of such dispositions first to settle any debts and claims, pending or otherwise, against Gyrodyne, and then makes liquidating distributions to holders of Gyrodyne common shares. We are unable to predict the precise nature, amount or timing of such distributions. To accomplish this, the Company's plan consists of:

- managing the real estate portfolio to improve operating cash flow while simultaneously increasing the market values of the underlying properties;
- managing the strategic sale of real estate assets;
- pursuing the entitlement efforts of the Flowerfield and Cortlandt Manor properties, to maximize value;
- focusing use of capital by the Company to preserve or improve the market value of the real estate portfolio; and
- balancing working capital and funds available for the entitlement process.

Gyrodyne's dual strategy is to enhance the value of Flowerfield and Cortlandt Manor by pursuing entitlement opportunities while simultaneously enhancing the value of its leases. The Company believes the aforementioned dual strategy will increase the values for such properties. The value of the real estate reported in the consolidated statement of net assets as of June 30, 2021 (predicated on current asset values) includes some but not all of the potential value impact that may result from such value enhancement efforts. There can be no assurance that our value enhancement efforts will result in property value increases that exceed the costs we incur in such efforts, or even any increase at all. Our efforts to generate the highest values for Flowerfield and Cortlandt Manor may involve, in limited circumstances, strategies to maximize the returns for our shareholders.

Sales of properties by Gyrodyne could take the form of individual sales of assets, sales of groups of assets, a single sale of all or substantially all of the assets or some other form of sale. The assets may be sold to one or more purchasers in one or more transactions over a period of time.

A sale of substantially all of the assets of the Company would require shareholder approval under New York law. However, in the event of the sale of individual properties, that do not constitute substantially all of the Company's assets, it is not required or anticipated that any shareholder votes will be solicited. The prices at which the various assets may be sold depend largely on factors beyond our control, including, without limitation, the condition of financial and real estate markets, the availability of financing to prospective purchasers of the assets, regulatory approvals, public market perceptions, and limitations on transferability of certain assets.

We cannot give any assurance on the timing of the ultimate sale of all of the Company's properties. Assuming the process of seeking entitlements and selling the assets is completed by December 31, 2022 and giving effect to the estimated cash flows from the operation of our existing properties, we expect that Gyrodyne will have a cash balance at December 31, 2022 of approximately \$22.47 million, prior to any future special distributions based on the estimate of net assets in liquidation presented in our Consolidated Statement of Net Assets. Such cash would equate to future liquidating distributions of \$15.15 per share based on Gyrodyne having 1,482,680 common shares outstanding. These estimated distributions are based on values on June 30, 2021 and include some but not all the potential value that may be derived from the entitlement efforts to maximize the value of Flowerfield and Cortlandt Manor.

The Consolidated Statements of Net Assets are based on certain estimates. Uncertainties as to the precise value of our non-cash assets, which include some but not all of the estimated potential additional value from the costs incurred to pursue the maximum value on Flowerfield and Cortlandt Manor through the entitlement efforts (including the pursuit of special permits) and the ultimate amount of our liabilities make it impracticable to predict the aggregate net value ultimately distributable to shareholders in a liquidation. Land entitlement costs, claims, liabilities and expenses from operations, including operating costs, salaries, real estate taxes, payroll and local taxes, legal, accounting and consulting fees and miscellaneous office expenses, will continue to be incurred during our process of seeking entitlements and selling assets, which includes certain enhancement efforts. Excluding the value that may be achieved from the entitlement efforts, expenses incurred in pursuing the Company's business plan will reduce the amount of assets available for ultimate distribution to shareholders, and, while a precise estimate of those expenses cannot currently be made, management and our Board believe that available

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Properties Transactions

Flowerfield. On August 27, 2019, the Company's wholly owned subsidiary GSD Flowerfield, LLC entered into a Purchase and Sale Agreement (the "BSL Agreement") for the sale of a 9.0-acre parcel of vacant land (the "BSL Agreement Property") in the Flowerfield complex in Smithtown, New York for \$16,800,000 to BSL St. James LLC, a Delaware limited liability company ("BSL"). The Agreement provided that BSL would have the right to terminate the BSL Agreement by written notice to GSD Flowerfield prior to the expiration of a defined inspection period (which had been extended via amendments to the BSL Agreement) if BSL was not fully satisfied, in BSL's sole discretion, as to the status of title, suitability of the Property and all factors concerning same, in which case BSL would have the right to receive a refund of its earnest money deposit.

On March 16, 2021, the Company received a notice (the "BSL Termination Notice") from BSL that it is terminating the BSL Agreement. The BSL Termination Notice referenced the foregoing termination right and requested the return of the earnest money deposit to BSL in accordance with the provisions of the BSL Agreement. Such earnest money deposit has been returned to BSL.

The BSL Agreement Property is included in the Company's subdivision application with the Town of Smithtown, New York, to subdivide the entire Flowerfield property into eight separate parcels (one parcel of which is a catering hall facility sold by the Company in 2002). The Company believes the termination of the BSL Agreement should have no impact on the subdivision application and will continue to actively market its entire Flowerfield property on the basis of eight subdivided lots subject to and contingent upon approvals for the subdivision and related entitlements.

On April 26, 2021, the Company closed on the sale of its 5.0-acre parcel of vacant land that is non-contiguous to and not part of the Flowerfield complex in Smithtown, New York for a purchase price of \$500,000 as per the purchase and sale agreement signed on May 11, 2020.

Cortlandt Manor. As of December 7, 2019, the Company's wholly owned subsidiaries GSD Cortlandt, LLC, a New York limited liability company and Buttonwood Acquisitions, LLC (together the "Cortlandt Subsidiaries"), executed a Purchase and Sale Agreement (the "SC Agreement") for the sale of approximately 4.5 acres of its real property located in Cortlandt Manor, New York, together with improvements thereon (the "SC Agreement Property") to Sound Cortlandt, LLC, a Delaware limited liability company ("SC LLC") for a purchase price of \$5,720,000.

The SC Agreement provided that SC LLC would have the right to terminate the SC Agreement by written notice to the Cortlandt Subsidiaries prior to the expiration of a defined inspection period (which had been extended via amendments to the SC Agreement) if SC LLC was not fully satisfied, in SC LLC's sole discretion, as to the status of title, suitability of the SC Agreement Property and all factors concerning same, in which case SC LLC would have the right to receive a refund of its earnest money deposit.

On February 1, 2021, the Company received a notice (the "SC Termination Notice") from SC, LLC that it is terminating the SC Agreement. The SC Termination Notice referenced the foregoing termination right and called for the Escrow Agent (as defined in the SC Agreement) to return the earnest money deposit immediately to SC LLC in accordance with the provisions of the SC Agreement. Such earnest money deposit has been returned to SC LLC.

The Company has made applications to the Town of Cortlandt (the "Town") for a zoning amendment to rezone the entire Cortlandt property (owned by the Cortlandt Subsidiaries) into a Town Medical Oriented District (an "MOD") and to seek approval for a unified site plan. The Company's original site plan at the time of executing the SC Agreement sought to subdivide its entire Cortlandt Manor property into three parcels for the development of (i) a medical office building with retail, (ii) a multi-family residential housing project and (iii) an open space, passive recreation parcel. The SC Agreement Property, which was the subject of the SC Agreement, is on the subdivision parcel in the original site plan for medical office building with ancillary retail space, but not on the multi-family residential housing parcel or the open space, passive recreation parcel.

The Company has made applications to the Town of Cortlandt (the “Town”) for a zoning amendment to rezone the entire Cortlandt property (owned by the Cortlandt Subsidiaries) into a Town Medical Oriented District (an “MOD”) and to seek approval for a unified site plan. The Company’s original site plan at the time of executing the SC Agreement sought to subdivide its entire Cortlandt Manor property into three parcels for the development of (i) a medical office building with retail, (ii) a multi-family residential housing project and (iii) an open space, passive recreation parcel. The SC Agreement Property, which was the subject of the SC Agreement, is on the subdivision parcel in the original site plan for medical office building with ancillary retail space, but not on the multi-family residential housing parcel or the open space, passive recreation parcel.

In response to extensive public comments received during the Cortlandt Manor public hearing process and input from the Cortlandt Manor Town Board, the Company amended the site plan and subdivision application with the Town to reflect a two-lot subdivision comprising a combined total of 184,600 square feet of medical office space and 4,000 square feet of retail space. The Company believes that the Town Board is expected to adopt an MOD designation for the Company’s Cortlandt property (inclusive of the two-lot subdivision and conceptual site plan approval) in early 2022.

Property Value Enhancement

The Company is pursuing entitlements to maximize the value of the Flowerfield and Cortlandt Manor properties. During the six-months ended June 30, 2021, the Company incurred approximately \$384,000 of land entitlement costs, consisting primarily of engineering costs, legal fees and real estate taxes to support the Company’s respective entitlement efforts. We estimate that the Company may incur approximately \$1.11 million in additional land entitlement costs through December 31, 2022 in pursuit of entitlements (approximately \$410,000 in Cortlandt Manor and \$696,000 in Flowerfield).

The Company is focusing its resources on positioning the properties to be sold with all entitlements necessary to achieve maximum pre-construction values in the shortest period of time with the least amount of risk to the Company. During the process of pursuing such entitlements, the Company may entertain offers from potential buyers who may be willing to pay prices for the properties that the Company finds more attractive from a timing or value perspective than values we believe may be reasonably achievable through completing the entitlement process ourselves.

Cortlandt Manor. On March 15, 2016, the Town of Cortlandt Manor (the “Town”) adopted a 2016 Sustainable Comprehensive Plan (the “Plan”) of which one key strategy was the simultaneous creation of a Medical Oriented District (“MOD”). The purpose of the proposed MOD is to expand the Town’s existing medical infrastructure and encourage economic development, including capital investment, job creation and housing options. The MOD would allow for a continuum of care, i.e., independent living, assisted living and nursing/hospital care, within or in neighboring facilities by centralizing medical services and related activities. As a designated zoning district, the MOD could include hospital, ambulatory surgery, primary and urgent care, hospice, laboratories, social services, boutique hotels, retail and a wide range of housing.

The Company’s existing 33,871 square foot Cortlandt Medical Center, inclusive of 13.8 acres, is located directly opposite New York Presbyterian’s Hudson Valley Hospital Center and within the boundaries of the MOD. The Company has committed resources toward both market research and feasibility studies in support of achieving entitlements to maximize the value of the property. For approximately four years the Company along with its planner and engineers have been working closely with the Town to identify issues and solutions involved in creating the Plan and more specifically, the MOD.

On March 31, 2017, The Company filed an application with the Town to develop the Cortlandt Manor property, as follows:

SUBDIVISION LOT #	BUILDING SIZE/YIELD
Medical office	100,000 sft
Multi-family apartments	200 units
Retail	4,000 sft

In response to the extensive public comments and Town Board input received during the State Environmental Quality Review “(SEQR)” Draft Generic Environmental Impact Statement (“DGEIS”) public hearing process, the Company amended the site plan and subdivision application with the Town to develop the Cortlandt property as follows:

SUBDIVISION LOT #	BUILDING SIZE/YIELD
Medical office Lot #1	100,000 sft
Retail (Lot #1)	4,000 sft
Medical Office Lot #2	84,600 sf

The entitlement costs for the six-months ended June 30, 2021 associated with the ownership and development of this property were approximately \$110,000.

As a property owner with eligible parcels in this district, Gyrodyne submitted an Environmental Assessment Form to the Town of Cortlandt Planning Department in December 2017 to support its application to receive a MOD campus designation. Once designated, the parcels would be governed by the use, dimensional and other provisions of the MOD zoning regulations and MOD zoning would replace the

As a property owner with eligible parcels in this district, Gyrodyne submitted an Environmental Assessment Form to the Town of Cortlandt Planning Department in December 2017 to support its application to receive a MOD campus designation. Once designated, the parcels would be governed by the use, dimensional and other provisions of the MOD zoning regulations and MOD zoning would replace the existing zoning. While the MOD zoning has not been formally adopted, Gyrodyne is currently proposing a two-phase medical office campus with limited retail and has designed the site to function as part of a future "hamlet center" with streetscape improvements. The existing medical office will remain operational until phase 2 is implemented.

In addition to the primary proposal noted above, an alternate mixed-use plan is submitted as part of the SEQRA process. The alternate mixed-use plan includes the following:

SUBDIVISION LOT #	BUILDING SIZE/YIELD
Medical office Lot #1	83,500 sft
Retail (Lot #1)	1,500 sft
Multi-Family Residential Lot #2	160 Units

The alternate is being reviewed for all categories of impacts in the SEQRA documentation similar to the primary proposal, and if approved as anticipated, will allow Gyrodyne the option to proceed with either program following MOD designation and subdivision. The alternate is not anticipated to impact the estimated timeline of approvals.

The Town of Cortlandt Planning Department hosted two public community outreach meetings in June and August 2018 where the Company presented its development plan for the Cortlandt Manor property. As anticipated, on August 7, 2018, the Town Board formally issued a "positive declaration" under the State Environmental Quality Review Act ("SEQRA"), i.e., a declaration that the project may result in one or more significant environmental impacts and will require the preparation of an Environmental Impact Statement ("EIS"), the scope of which was also adopted. On August 28, 2018, the Town filed the Scope for a DGEIS with input from Gyrodyne for both the MOD zoning and the proposed uses so that upon adoption, minimal further SEQRA review should be required to develop the property. On September 17, 2019, the Town of Cortlandt Town Board as Lead Agency under SEQR adopted a resolution accepting the DGEIS as complete for public review. The Town of Cortlandt Town Board hosted two public hearings on the DGEIS on November 19, 2019 and January 14, 2020. The Town of Cortlandt Planning Board extended the public comment period 90 days with the next public hearing scheduled for April 14, 2020. As a result of the New York State's stay-at-home-order, the April 14, 2020 public hearing was postponed to June 2020. The public hearing was then held on June 16, 2020 on a virtual platform. The Town closed the public comment period on June 30, 2020 and is in the process of reviewing the public comments and preparing the Final Generic Environmental Impact Statement ("GEIS"). The Company anticipates the Final GEIS will reflect the Company's Cortlandt Manor property proposed uses comprising 184,600 square feet of medical office space and 4,000 square feet of retail space. It is anticipated that the Final GEIS will be accepted by the Town Board with SEQR completed in late 2021. The Town Board is anticipated to adopt a MOD designation for the property in early 2022 with subdivision approval granted by the Town Planning Board occurring in the first quarter of 2022. The Company does not plan on developing the property but rather positioning the property to be sold with all entitlements necessary to achieve maximum pre-construction value for the Company in the shortest period of time with the least amount of risk to the Company.

Flowerfield. Following market research and related feasibility studies, we identified the entitlements that we believe will maximize the value of Flowerfield in the shortest amount of time with the lowest amount of risk. The Company has been in discussions with the Town of Smithtown on the potential real estate development projects identified by the market research and feasibility studies, all of which currently fall within our "as of right to build" zoning. We are also exploring with the Town of Smithtown whether it would be amenable to certain entitlements, special permits, or other concessions that would allow for the identified development projects.

In March 2017, the Company filed a pre-subdivision application with the Town of Smithtown (the "Pre-application") for the Flowerfield property along with the previously sold (2002) catering hall facility for an eight-lot subdivision which the Town of Smithtown has determined must be processed as a nine-lot subdivision in response to certain comments received from the planning department the final approved (in 2021) FEIS included an eight-lot subdivision). In June 2017, the Company filed a subdivision application with the Town of Smithtown based on feedback provided by the Town of Smithtown staff in the pre-application process. Because of the property's location within 500 feet of a municipal boundary and a state road, the Town of Smithtown referred the Company's subdivision application to the Suffolk County Planning Commission as required by the Suffolk County Administrative Code and the New York State General Municipal Law.

On August 2, 2017, the Suffolk County Planning Commission voted 11-0 to approve Gyrodyne's subdivision application without conditions. Although the approval by the Suffolk County Planning Commission is not binding on the Town of Smithtown, the approval without conditions means that the requisite vote threshold for the application at the Town of Smithtown's Planning Board is a simple majority.

On November 15, 2017, the Town of Smithtown Planning Board conducted a public hearing where the Company presented its subdivision plan of the Flowerfield property. On April 11, 2018, the Planning Board determined that the subdivision plan may result in one or more significant environmental impacts which will require the preparation of an EIS. As a result, at the April 11, 2018 Planning Board meeting, the Planning Board issued a SEQRA Positive Declaration, which was rescinded and re-issued by Planning Board Resolution dated May 9, 2018 to include a public scoping process. The then current Town Planning Board Chairman communicated that a Positive Declaration would require up to one year to complete the SEQRA process. The Town issued the Final Scope on July 7, 2018. On August 15, 2018, the

On November 15, 2017, the Town of Smithtown Planning Board conducted a public hearing where the Company presented its subdivision plan of the Flowerfield property. On April 11, 2018, the Planning Board determined that the subdivision plan may result in one or more significant environmental impacts which will require the preparation of an EIS. As a result, at the April 11, 2018 Planning Board meeting, the Planning Board issued a SEQRA Positive Declaration, which was rescinded and re-issued by Planning Board Resolution dated May 9, 2018 to include a public scoping process. The then current Town Planning Board Chairman communicated that a Positive Declaration would require up to one year to complete the SEQRA process. The Town issued the Final Scope on July 7, 2018. On August 15, 2018, the Company submitted the EIS to the Town of Smithtown Planning Department prior to the public hearing. The Company received comments on its EIS at the end of the third quarter of 2018 and submitted its response to the Town of Smithtown Planning Department on February 15, 2019. In May 2019, the Company received additional comments on its EIS and submitted its responses to the Town on June 4, 2019. On July 3, 2019, the Company received additional comments on its EIS and submitted its response to the Town of Smithtown Planning Department on August 28, 2019. On September 24, 2019, the company received additional comments on its EIS and submitted its response to the Town of Smithtown Planning Department on September 25, 2019. The Town of Smithtown Planning Board as Lead Agency under SEQRA adopted a resolution accepting the DEIS as complete for public review on December 11, 2019 and announced a public comment period that closed on January 24, 2020. Furthermore, the Town Planning Board held and closed the public hearing for the DEIS on January 8, 2020. Following the closing of the public comment period, the Company received a copy of the public comments in February 2020, accordingly. The company reviewed the public comments and responded by submitting a Final EIS (“FEIS”) on April 20, 2020. Following the receipt of additional comments in June 2020, the Company filed its FEIS in September 2020 and received final comments on October 16th, 2020. The Company filed its Final FEIS in November 2020 reflecting an eight-lot subdivision. The FEIS was accepted by the Town Planning Board on March 10, 2021. Following a public comment period that closed on March 31, 2021, the Town of Smithtown forwarded the public comments and the FEIS to the Suffolk County Planning Commission. On May 5, 2021, the Suffolk County Planning Commission voted 5 to 4 to approve the application as a matter for local determination. Based on the fact that less than a majority of the 18 total members (10 members needed) voted to either approve or deny the application, the application is deemed approved as a matter for local determination. Thus, the Smithtown Planning Board may act and approve the matter with a simple majority vote. The Town of Smithtown will review the County determination and the Town Planning Board will issue a Findings Statement. Preliminary Approval of the subdivision may occur simultaneously or shortly after the Findings Statement. Following Preliminary Approval, the Company will pursue Final Subdivision approval.

The entitlement costs for the six-months ended June 30, 2021 associated with the ownership and development of this property consisted of architectural and engineering costs, legal expenses, economic analysis, soil management and surveys were approximately \$274,000.

While we cannot predict the outcome of the subdivision application, we have undertaken to subdivide the Flowerfield property in a manner that we believe will result in maximum pre-construction values in the shortest amount of time and limited risk. The pandemic has negatively impacted demand for office (including medical office) and hotel development “on spec”. The Company’s subdivision plan at Flowerfield will allow for any combination of the aforementioned uses and is marketing the undeveloped lots to reflect such flexibility.

Healthcare Industry

Our tenants in our Cortlandt Manor property are healthcare service providers. Furthermore, the Company has expanded its leasing relationship with Stony Brook University (“SBU”), SBU Hospital and affiliates of SBU Hospital at our Flowerfield property which increased its exposure to the healthcare industry. The healthcare industry is subject to substantial regulation and faces increased regulation particularly relating to fraud, waste and abuse, cost control and healthcare management. The healthcare industry may experience a significant expansion of applicable federal, state or local laws and regulations, previously enacted or future healthcare reform, new interpretations of existing laws and regulations or changes in enforcement priorities, all of which could materially impact the business and operations of our tenants and therefore the marketability of our properties.

The Patient Protection and Affordable Care Act of 2010 (the “ACA”) impacted the healthcare marketplace by decreasing the number of uninsured individuals in the United States through the establishment of health insurance exchanges to facilitate the purchase of health insurance, expanded Medicaid eligibility, subsidized insurance premiums and included requirements and incentives for businesses to provide healthcare benefits. There have been executive, judicial and Congressional challenges to certain aspects of the ACA. Although the U.S. Supreme Court has not yet ruled on the constitutionality of the ACA, on January 28, 2021, President Biden issued an executive order that instructs certain governmental agencies to review and reconsider their existing policies and rules that limit access to healthcare, including among other policies that create unnecessary barriers to obtaining access to health insurance coverage through Medicaid or the ACA. It is unclear how the Supreme Court ruling, other such litigation, and the healthcare reform measures of the Biden administration will impact the ACA and the operations and financial condition of our medical office tenants, which in turn may adversely impact us.

Our tenants are subject to extensive federal, state, and local licensure laws, regulations and industry standards governing business operations, the physical plant and structure, patient rights and privacy and security of health information. Our tenants’ failure to comply with any of these laws could result in loss of licensure, denial of reimbursement, imposition of fines or other penalties, suspension or exclusion from the government sponsored Medicare and Medicaid programs, loss of accreditation or certification, or closure of the facility. In addition, efforts by third-party payors, such as the Medicare and Medicaid programs and private insurance carriers, including health maintenance organizations and other health plans, impose greater discounts and more stringent cost controls upon healthcare provider operations (through changes in reimbursement rates and methodologies, discounted fee structures, the assumption by healthcare providers of all or a portion of the financial risk or otherwise). Our tenants may also face significant limits on the scope of services reimbursed and on reimbursement rates and fees, all of which could impact their ability to pay rent or other obligations to us.

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Impact of COVID-19

The following discussion is intended to provide shareholders with certain information regarding the impacts of the COVID-19 pandemic on the Company's business and management's efforts to respond to those impacts. Unless otherwise specified, the statistical and other information regarding the Company's properties and tenants are estimates based on information available to the Company. As a result of the rapid development, fluidity and uncertainty surrounding this situation, the Company expects that such statistical and other information will change, potentially significantly, going forward, and may not be indicative of the actual impact of the COVID-19 pandemic on the Company's business, operations, cash flows and financial condition for the first two quarters of 2021 and future periods.

The spread of COVID-19 is having a significant impact on the global economy, the U.S. economy, the economies of the local markets in which the Company's properties are located and the broader financial markets. Nearly every industry has been impacted directly or indirectly, and has come under severe pressure due to numerous factors, including preventative measures taken by local, state and federal authorities to alleviate the public health crisis such as mandatory business closures, quarantines, restrictions on travel and "shelter-in-place" or "stay-at-home" orders. These containment measures, which generally do not apply to businesses designated as "essential," have affected the operations of our tenants, and non-essential businesses generally forced to close. There is uncertainty as to the time, date and extent to which these restrictions will be relaxed or lifted, businesses of tenants that have closed, either voluntarily or by mandate, will reopen or when customers will re-engage with tenants as they have in the past. The Company's properties and tenants have been impacted by these and other factors as follows:

- As of the date of this Quarterly Report on Form 10-Q, both of the Company's properties are open and the Company believes are operating in compliance with federal, state and local COVID-19 guidelines and mandates. Both of the Company's properties feature tenants designated as "essential".
- Approximately 40% of the Company's tenants (based on 2021 projected annual revenues) are not-for-profit corporations or other tenants that are neither medical nor part of or affiliated with SBU or SBU Hospital.

The U.S. economy has been growing as COVID-19 vaccinations are increasingly administered, commercial activities increasingly return to pre-pandemic practices and operations, and as a result of recent and expected future government spending on COVID-19 pandemic relief, infrastructure and other matters. However, this favorable outlook could be affected materially by adverse developments, if any, related to the COVID-19 pandemic, including resurgence of COVID-19 cases due to more contagious variants, such as the Delta variant, or new or more restrictive public health requirements recommended or imposed by federal, state and local authorities. There remains uncertainty as to the ultimate duration and severity of the pandemic on commercial activities, including risks that may arise from mutations or related strains of the virus, and the ability to successfully administer vaccinations to a sufficient number of persons or attain immunity to the virus by natural or other means to achieve herd immunity. Until the COVID-19 pandemic has been resolved as a public health crisis, it retains the potential to cause further and more severe disruption of global and national economies, cause political uncertainty and civil unrest, and diminish consumer confidence, all of which could impact the local real estate market and our business.

The Company has taken a number of proactive measures to maintain the strength of its business and manage the impact of COVID-19 on the Company's operations and liquidity, including the following:

- Along with the Company's tenants and the communities they and the Company together serve, the health and safety of the Company's employees and their families is a top priority. The Company has adapted its operations to protect employees, including by implementing a work from home policy, and the Company's IT systems have enabled its team to work seamlessly.
- To enhance our liquidity position and maintain financial flexibility, the Company secured a loan for up to \$2,500,000, evidenced by a non-revolving business line of credit agreement and promissory note, which closed on July 16, 2020.

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- On February 22, 2021, the working capital GSD Cortlandt loan was amended to remove the contingency of purchase agreements to be able to draw on the line. Consequently, the Company was not required to make a principal reduction under the credit facility and the remaining undrawn balance of \$1,450,000 is available at the lender's discretion.
 - The Company has taken proactive measures to manage costs, including securing agreements from certain of the Company's major service vendors to defer approximately \$812,000 of land development fees and other professional fees incurred to date plus approximately \$210,000 of forecasted land development fees and \$82,000 in other professional fees until the first post subdivision property lot is sold. The only significant expenditures the Company plans to make at this time on our properties relate to obtaining

- On February 22, 2021, the working capital GSD Cortlandt loan was amended to remove the contingency of purchase agreements to be able to draw on the line. Consequently, the Company was not required to make a principal reduction under the credit facility and the remaining undrawn balance of \$1,450,000 is available at the lender’s discretion.
- The Company has taken proactive measures to manage costs, including securing agreements from certain of the Company’s major service vendors to defer approximately \$812,000 of land development fees and other professional fees incurred to date plus approximately \$210,000 of forecasted land development fees and \$82,000 in other professional fees until the first post subdivision property lot is sold. The only significant expenditures the Company plans to make at this time on our properties relate to obtaining entitlements. Further, the Company expects that the only material capital expenditures at the Company’s properties will be tenant improvements and/or other leasing costs associated with existing and new leases.
- The Company adopted a Deferred Compensation Plan effective as of January 1, 2020 pursuant to which officers and directors may elect to defer a portion of their compensation until the earlier of December 15, 2026 or adoption of a Plan of Liquidation, together with interest on such deferred payments at a fixed rate of 5%.

The extent of the impact of COVID-19 on the Company’s operational and financial performance and ultimately its net asset value, will depend on current and future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions. The Company’s ability to operate seamlessly and limit any adverse impact on its forecasted net asset value will also depend, in part, on whether any of its key employees or key advisers are infected by the Coronavirus and become ill from COVID-19.

As a result of the foregoing developments, we are unable to determine what the ultimate impact will be on our timeline for seeking entitlements and selling properties, and ultimately on the amount proceeds and distributions from those sales. For more information and risks relating to the pandemic on us and our business, see “Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations – COVID-19 Pandemic” and Part I, Item 1A, “Risk Factors”, of our Annual Report for the year ended December 31, 2020 and as amended in this Report on Form 10-Q.

Transaction Summary for the Six-Months Ended June 30, 2021

The following summarizes our significant transactions and other activity during the six-months ended June 30, 2021.

Debt Facility. The Company secured a non-revolving credit line for up to \$3,000,000 (the “Original Line”) with a bank, which closed on March 21, 2018. The original line included an interest only phase for the first eight months of the loan (as amended the “Interest-Only Phase”). The Company amended and extended the Original Line which included extending the conversion date of the Interest-Only Phase to the earlier of April 30, 2021 or upon drawing down a total of \$3,000,000 after which it automatically converts to a permanent loan maturing on the earlier of April 30, 2028 or 84 months after conversion to a permanent loan (the “Permanent Phase”). On April 30, 2021, the loan converted to the Permanent Phase with an outstanding principal balance of \$2,200,000. During the Permanent Phase, the Company is paying interest at a fixed rate based on the Federal Home Loan Bank rate for a 7-year maturity as made available by the Federal Home Loan Bank of New York plus a margin of 200 basis points (2%) rounded up to the nearest 1/8 percent, but shall not be less than 3.85%, plus principal based on a 20-year amortization period. The Permanent Phase interest rate currently is 3.85%.

To secure access to additional working capital through the final sale date of the Flowerfield industrial buildings, the Company secured a second loan evidenced by a non-revolving business line of credit agreement and promissory note with the Original Line bank for up to \$3,000,000, which closed on January 24, 2019. This loan included an interest only phase for the first twenty-four months of the loan (“Interest-Only Phase”) after which it automatically converts to a permanent loan maturing on January 20, 2028 (84 months after conversion to a permanent loan) (the “Permanent Phase”). The Company amended and extended the line which included extending the conversion date of the Interest-Only Phase to May 20, 2021 after which it automatically converts to a permanent loan maturing on May 20, 2028 (84 months after conversion to a permanent loan). During the Permanent Phase, the Company pays interest at a fixed rate based on the Federal Home Loan Bank rate for a 7-year maturity as made available by the Federal Home Loan Bank of New York plus a margin of 200 basis points (2%) rounded up to the nearest 1/8 percent, but shall not be less than 3.85%, plus principal based on a 20-year amortization period. Permanent Phase interest rate currently is 3.85%.

The aforementioned loans are secured by 31.8 acres of the Flowerfield Industrial Park including the related buildings and leases. The only significant financial covenant associated with the loan is a debt service ratio on GSD Flowerfield, LLC of 1.25 to 1, per latest modification. The Company is in compliance with the loan covenants. The Company anticipates modifying the terms of the loan following the completion of its subdivision so that the loans are secured by the subdivided industrial park lot only.

To secure access to additional working capital, the Company, through its subsidiary GSD Cortlandt, LLC (“GSD Cortlandt”) secured a loan evidenced by a non-revolving business line of credit agreement and promissory note with the Original Line bank for up to \$2,500,000 which closed on July 16, 2020. The term is 24 months, with an option to extend for an additional 12 months. The interest rate is a variable rate equal to the daily highest prime rate published by the Wall Street Journal plus 100 basis points (1%), rounded up to the nearest 1/8 percent, but in no event less than four and three quarters percent (4.75%). The terms of the loan originally limited access to certain amounts, contingent upon GSD Cortlandt securing purchase and sale agreements for one or both Cortlandt Property lots. On February 22, 2021, the loan was amended to remove such limitation on draws. Advances of \$379,765 and \$670,235, were drawn at closing and on January 28, 2021, respectively. Under the line, the balance of \$1,450,000 is available at the lender’s sole discretion.

To secure access to additional working capital, the Company, through its subsidiary GSD Cortlandt, LLC (“GSD Cortlandt”) secured a loan evidenced by a non-revolving business line of credit agreement and promissory note with the Original Line bank for up to \$2,500,000 which closed on July 16, 2020. The term is 24 months, with an option to extend for an additional 12 months. The interest rate is a variable rate equal to the daily highest prime rate published by the Wall Street Journal plus 100 basis points (1%), rounded up to the nearest 1/8 percent, but in no event less than four and three quarters percent (4.75%). The terms of the loan originally limited access to certain amounts, contingent upon GSD Cortlandt securing purchase and sale agreements for one or both Cortlandt Property lots. On February 22, 2021, the loan was amended to remove such limitation on draws. Advances of \$379,765 and \$670,235, were drawn at closing and on January 28, 2021, respectively. Under the line, the balance of \$1,450,000 is available at the lender’s sole discretion.

The line is secured by the Cortlandt property (13.8 acres) and cross collateralized by 31.8 acres of the Flowerfield Industrial Park including the related buildings and leases. The Company anticipates modifying the terms of the loans following the completion of the subdivision so that the loans remain cross collateralized by the subdivided industrial park lot only.

COVID-19. Small businesses are expected to be adversely affected disproportionately by the economic ramifications of COVID-19. In terms of its own tenants, the Company has deferred approximately \$95,500 of rental revenue due to tenants who were closed due to the Executive Order entitled “New York State on PAUSE”. All deferred rent is expected to be collected under alternate arrangements made with tenants.

Leasing Activity. During the six-months ended June 30, 2021, the Company executed four new leases and thirteen renewals comprising approximately 3,200 and 22,000 square feet and annual revenue of approximately \$45,000 and \$573,000, respectively. There were also two expansions during the six months ended June 30, 2021 comprising approximately 4,100 square feet and approximately \$112,000 in annual revenue.

There was one termination during the six-months ended June 30, 2021 comprising approximately 2,800 square feet and approximately \$70,600 in annual revenue.

Disposition Activities. On April 26, 2021, the Company closed on the sale of its approximate 5.0 acres comprising of two parcels of vacant land that is non-contiguous to and not part of the Flowerfield complex in Smithtown, New York for a purchase price of \$500,000 as per the purchase and sale agreement signed on May 11, 2020.

Termination of Purchase Agreements.

Flowerfield - On August 27, 2019, the Company’s wholly owned subsidiary GSD Flowerfield, LLC entered into a Purchase and Sale Agreement (the “BSL Agreement”) for the sale of a 9.0-acre parcel of vacant land (the “BSL Agreement Property”) in the Flowerfield complex in Smithtown, New York for \$16,800,000 to BSL St. James LLC, a Delaware limited liability company (“BSL”). The Agreement provided that BSL would have the right to terminate the BSL Agreement by written notice to GSD Flowerfield prior to the expiration of a defined inspection period (which had been extended via amendments to the BSL Agreement) if BSL was not fully satisfied, in BSL’s sole discretion, as to the status of title, suitability of the Property and all factors concerning same, in which case BSL would have the right to receive a refund of its earnest money deposit.

On March 16, 2021, the Company received a notice (the “BSL Termination Notice”) from BSL that it is terminating the BSL Agreement. The BSL Termination Notice referenced the foregoing termination right and requested the return of the earnest money deposit to BSL in accordance with the provisions of the BSL Agreement. Such earnest money deposit has been returned to BSL.

The BSL Agreement Property is included in the Company’s subdivision application with the Town of Smithtown, New York, to subdivide the entire Flowerfield property into eight separate parcels (one parcel of which is a catering hall facility sold by the Company in 2002). The Company believes the termination of the BSL Agreement should have no impact on the subdivision application and will continue to actively market its entire Flowerfield property on the basis of eight subdivided lots subject to and contingent upon approvals for the subdivision and related entitlements.

Cortlandt Manor - As of December 7, 2019, the Company’s wholly owned subsidiaries GSD Cortlandt, LLC, a New York limited liability company and Buttonwood Acquisitions, LLC (together the “Cortlandt Subsidiaries”), executed a Purchase and Sale Agreement (the “SC Agreement”) for the sale of approximately 4.5 acres of its real property located in Cortlandt Manor, New York, together with improvements thereon (the “SC Agreement Property”) to Sound Cortlandt, LLC, a Delaware limited liability company (“SC LLC”) for a purchase price of \$5,720,000.

The SC Agreement provided that SC LLC would have the right to terminate the SC Agreement by written notice to the Cortlandt Subsidiaries prior to the expiration of a defined inspection period (which had been extended via amendments to the SC Agreement) if SC LLC was not fully satisfied, in SC LLC’s sole discretion, as to the status of title, suitability of the SC Agreement Property and all factors concerning same, in which case SC LLC would have the right to receive a refund of its earnest money deposit.

On February 1, 2021, the Company received a notice (the “SC Termination Notice”) from SC, LLC that it is terminating the SC Agreement. The SC Termination Notice referenced the foregoing termination right and called for the Escrow Agent (as defined in the SC Agreement) to return the earnest money deposit immediately to SC LLC in accordance with the provisions of the SC Agreement. Such earnest money deposit has been returned to SC LLC.

On February 1, 2021, the Company received a notice (the “SC Termination Notice”) from SC, LLC that it is terminating the SC Agreement. The SC Termination Notice referenced the foregoing termination right and called for the Escrow Agent (as defined in the SC Agreement) to return the earnest money deposit immediately to SC LLC in accordance with the provisions of the SC Agreement. Such earnest money deposit has been returned to SC LLC.

The Company has made applications to the Town of Cortlandt for a zoning amendment to rezone the entire Cortlandt property (owned by the Cortlandt Subsidiaries) into a MOD and to seek approval for a unified site plan. The Company’s original site plan at the time of executing the SC Agreement sought to subdivide its entire Cortlandt Manor property into three parcels for the development of (i) a medical office building with retail, (ii) a multi-family residential housing project and (iii) an open space, passive recreation parcel. The SC Agreement Property, which was the subject of the SC Agreement, is on the subdivision parcel in the original site plan for medical office building with ancillary retail space, but not on the multi-family residential housing parcel or the open space, passive recreation parcel.

In response to extensive public comments received during the Cortlandt Manor public hearing process and input from the Cortlandt Manor Town Board, the Company amended the site plan and subdivision application with the Town to reflect a two-lot subdivision comprising a combined total of 184,600 square feet of medical office space and 4,000 square feet of retail space. The Company believes that the Town Board is expected to adopt an MOD designation for the Company’s Cortlandt property (inclusive of the two-lot subdivision and conceptual site plan approval) in early 2022.

Critical Accounting Policies

Gyrodyne intends to dissolve after it completes the disposition of all of its real property assets, applies the proceeds of such dispositions first to settle any debts and claims, pending or otherwise, against Gyrodyne, and then makes distributions to holders of Gyrodyne common shares. Therefore, effective September 1, 2015 Gyrodyne adopted the liquidation basis of accounting. This basis of accounting is considered appropriate when, among other things, liquidation of the entity is “imminent”, as defined in ASC 205-30, Presentation of Financial Statements Liquidation Basis of Accounting. Under the LLC Agreement, the Board may elect, in its sole discretion and without any separate approval by shareholders, to dissolve the Company at any time the value of the Company’s assets, as determined by the Board in good faith, is less than \$1 million. The LLC Agreement also provides that the Company will dissolve, and its affairs wound up upon the sale, exchange or other disposition of all the real properties of the Company. As a result, liquidation is deemed to be “imminent” in accordance with the guidance provided in ASC 205-30.

Principles of consolidation - The consolidated financial statements include the accounts of Gyrodyne and all subsidiaries. All consolidated subsidiaries are wholly owned. All inter-company balances and transactions have been eliminated.

Basis of Presentation - Liquidation Basis of Accounting – Under the liquidation basis of accounting the consolidated balance sheet and consolidated statements of operations, equity, comprehensive income and cash flows are no longer presented. The consolidated statements of net assets and changes in net assets are the principal financial statements presented under the liquidation basis of accounting.

Under the liquidation basis of accounting, all the Company’s assets have been stated at their estimated net realizable value, or liquidation value, (which represents the estimated amount of cash that Gyrodyne will collect on the disposal of assets as it carries out the plan of liquidation), which is based on current contracts, estimates and other indications of sales value (predicated on current values). All liabilities of the Company, including those estimated costs associated with implementing the plan of liquidation, have been stated at their estimated settlement amounts. These amounts are presented in the accompanying statements of net assets. These estimates are periodically reviewed and adjusted as appropriate. There can be no assurance that these estimated values will be realized. Such amounts should not be taken as an indication of the timing or amount of future distributions or our actual dissolution. The valuation of assets at their net realizable value and liabilities at their anticipated settlement amount represent estimates, based on present facts and circumstances, of the net realizable value of the assets and the costs associated with carrying out the plan of liquidation. The actual values and costs associated with carrying out the plan of liquidation may differ from amounts reflected in the accompanying financial statements because of the plan’s inherent uncertainty. These differences may be material. In particular, the estimates of our costs will vary with the length of time necessary to complete the plan of liquidation, which is currently anticipated to be completed by December 31, 2022. The Company is in the process of pursuing entitlements and density approvals, and our ability to obtain required permits and authorizations is subject to factors beyond our control, including environmental concerns of governmental entities, community groups and purchasers (Purchase and Sale Agreement entered but not yet closed/prospective purchasers). The process will involve extensive analysis internally at the government entity level, as well as between government entities such as town planning departments and Gyrodyne and or purchasers, and will continue up until such time as entitlement and density decisions are made by the relevant government entities. The Company hopes to secure favorable decisions on entitlements, and density so that we can then seek the sale of our remaining properties at higher prices (than those achievable under their current entitlements) and then proceed with the liquidation and dissolution of the Company. Any deviation in use or density between what we are pursuing in our entitlement efforts and what is ultimately permitted could have a material impact on value. The Company expects the process of pursuing entitlements, density approvals, sales, liquidation and dissolution could extend through December 31, 2022 with the ultimate timing dependent upon and under the control of the applicable municipality’s planning board or other governmental authority and or purchasers. Accordingly, it is not possible to predict with certainty the timing or aggregate amount which may ultimately be distributed to common shareholders and no assurance can be given that the distributions will equal or exceed the estimate presented in the accompanying consolidated statements of net assets.

The Company’s assumptions and estimates (including the sales proceeds of all its real estate holdings, selling costs, retention bonus payments, rental revenues, rental expenses, capital expenditures, land entitlement costs, general and administrative fees, director and officer

The Company's assumptions and estimates (including the sales proceeds of all its real estate holdings, selling costs, retention bonus payments, rental revenues, rental expenses, capital expenditures, land entitlement costs, general and administrative fees, director and officer liability and reimbursement, post liquidation insurance tail coverage policy and final liquidation costs) are based on completing the liquidation by December 31, 2022. As previously stated, on an ongoing basis, Gyrodyne evaluates the estimates and assumptions that can have a significant impact on the reported net assets in liquidation and will update relevant information accordingly, for any costs and value associated with a change in the duration of the liquidation, as we cannot give any assurance on the timing of the ultimate sale of all the Company's properties.

Management Estimates – In preparing the consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") and the liquidation basis of accounting, management is required to make estimates and assumptions that affect the reported amounts of assets, including net assets in liquidation, and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of receipts and expenditures for the reporting period. Actual results could differ from those estimates.

The most significant estimates are the estimates on the net realizable value from the sale of our real estate, the estimated costs/time to pursue entitlements and the related timeline to complete the liquidation.

Cash equivalents - The Company considers all certificates of deposits, money market funds, treasury securities and other highly liquid debt instruments purchased with short-term maturities to be cash equivalents.

Allowance for doubtful accounts – Rent receivable is carried at net realizable value. Management makes estimates of the collectability of rents receivable. Management specifically analyzes receivables and historical bad debts, tenant concentrations, tenant creditworthiness, current economic trends, including the impact of the outbreak of the novel strain of coronavirus (COVID-19) on tenants' businesses, and changes in tenant payment patterns when evaluating the adequacy of the allowance for doubtful accounts.

Fair Value Measurements – The Company believes the concepts for determining net realizable value are consistent with the guidance for measuring fair value. As a result, the Company follows the guidance of FASB Accounting Standards Codification, *Fair Value Measurements and Disclosures* to determine the fair value of financial and non-financial instruments. The guidance defines fair value, establishes a hierarchy framework for measuring fair value and expands disclosures related to the fair value. The guidance establishes a hierarchy breaking down observable and unobservable inputs into three levels: Level 1 – observable inputs in an active market on or around the measurement date, Level 2 – observable inputs that are based on prices not quoted on active markets but corroborated by market data and Level 3 – unobservable inputs utilized when no other data is available.

Estimated Distributions per Share – Under the liquidation basis of accounting, the Company reports estimated distributions per share data by dividing net assets by the number of shares outstanding.

New accounting pronouncements - Management has evaluated the impact of newly issued accounting pronouncements, whether effective or not as of June 30, 2021, and has concluded that they will not have a material impact on the Company's consolidated financial statements since the Company reports on a liquidation basis.

Discussion of the Statements of Net Assets

Net assets in liquidation on June 30, 2021 and December 31, 2020 would result in estimated liquidating distributions of \$22,468,881 and \$22,487,944, or approximately \$15.15 and \$15.17 per common share, respectively, based on 1,482,680 shares outstanding. The decrease of \$19,063 or \$0.02 per share is attributable to the change in the estimated liquidation and operating costs net of receipts, mainly due to additional interest expense and closing/prepayment fees on the loan that is the subject to the commitment letter the Company executed in August 2021 (see Note 17) of approximately \$107,000 and \$223,000, respectively, and additional property operating expenses and selling costs of \$40,035 and \$20,737, respectively, offset by additional rental revenue and savings in corporate expenditures of approximately \$270,000 and \$101,000, respectively.

The comparability of the Company's net assets in liquidation on June 30, 2021 to future measurement dates may be significantly impacted by the effects of the outbreak of the COVID-19 pandemic.

The cash balance at the end of the liquidation period (currently estimated to be December 31, 2022, although the estimated completion of the liquidation period may change), excluding any interim distributions, is estimated based on the June 30, 2021 cash balance of \$2.41 million plus adjustments for the following items which are estimated through December 31, 2022:

1. The estimated cash receipts from the operation of the properties net of rental property related expenditures as well as costs expected to be incurred to preserve or improve the net realizable value of the properties at their estimated gross sales proceeds.
2. Net proceeds from the sale of all the Company's real estate holdings.
3. The general and administrative expenses and or liabilities associated with operations and the liquidation of the Company including severance, director and officer liability coverage including post liquidation tail policy coverage, and financial and legal fees to complete the liquidation.
4. Costs for the pursuit of the entitlement of the Flowerfield and Cortlandt Manor properties.

The cash balance at the end of the liquidation period (currently estimated to be December 31, 2022, although the estimated completion of the liquidation period may change), excluding any interim distributions, is estimated based on the June 30, 2021 cash balance of \$2.41 million plus adjustments for the following items which are estimated through December 31, 2022:

1. The estimated cash receipts from the operation of the properties net of rental property related expenditures as well as costs expected to be incurred to preserve or improve the net realizable value of the properties at their estimated gross sales proceeds.
2. Net proceeds from the sale of all the Company's real estate holdings.
3. The general and administrative expenses and or liabilities associated with operations and the liquidation of the Company including severance, director and officer liability coverage including post liquidation tail policy coverage, and financial and legal fees to complete the liquidation.
4. Costs for the pursuit of the entitlement of the Flowerfield and Cortlandt Manor properties.
5. Retention bonus amounts.
6. Costs, including principal payments, net of drawdowns on the credit facilities to fund tenant improvements and working capital and related fees.

The Company estimates the net realizable value of its real estate assets by using income and market valuation techniques. The Company may estimate net realizable values using market information such as broker opinions of value, appraisals, and recent sales data for similar assets or discounted cash flow models, which primarily rely on Level 3 inputs as defined under FASB ASC Topic No. 820, Fair Value Measurement. The cash flow models include estimated cash inflows and outflows over a specified holding period. These cash flows may include contractual rental revenues, projected future rental revenues and expenses and forecasted capital improvements and lease commissions based upon market conditions determined through discussion with local real estate professionals and relevant Company experience with its current and previously owned properties. Capitalization rates and discount rates utilized in these models are estimated by management based upon rates that management believes to be within a reasonable range of current market rates for the respective properties based upon an analysis of factors such as property and tenant quality, geographical location and local supply and demand observations. To the extent the Company underestimates or overestimates forecasted cash outflows (capital improvements, lease commissions and operating costs) or overestimates or underestimates forecasted cash inflows (rental revenue rates), the estimated net realizable value of its real estate assets could be overstated or understated.

The Company estimates that it will incur approximately \$1.11 million (included in the statements of net assets as part of the estimated liquidation and operating costs net of receipts) in land entitlement costs from July 2021 through the end of the liquidation period, currently estimated to conclude on or about December 31, 2022, in an effort to obtain entitlements, including special permits. The Company believes the commitment of these resources will enable the Company to position the properties for sale with all entitlements necessary to maximize the Flowerfield and Cortlandt Manor property values. During the six-months ended June 30, 2021, the Company incurred approximately \$384,000 of land entitlement costs, consisting primarily of engineering fees, legal fees and real estate taxes. The Company believes the remaining balance of \$1.11 million (approximately \$210,000 of which the Company's service vendors have agreed to defer until the first post subdivision property lot is sold) will be incurred from July 2021 through the end of the liquidation period. The Company does not intend to develop the properties but rather to commit resources to position the properties for sale in a timely manner with all entitlements necessary to achieve maximum pre-construction values. The costs and time frame to achieve the entitlements could change due to a range of factors including a shift in the value of certain entitlements making it more profitable to pursue a different mix of entitlements and the dynamics of the real estate market. As a result, the Company has focused and will continue to focus its land entitlement efforts on achieving the highest and best use while considering the time necessary to achieve such entitlements. During the process of pursuing such entitlements, the Company may entertain offers from potential buyers who may be willing to pay premiums for the properties that the Company finds more acceptable from a timing or value perspective than completing the entitlement processes itself. The value of the real estate reported in the statement of net assets as of June 30, 2021 (predicated on current asset values) includes some but not all of the potential value impact that may result from the land entitlement efforts. There can be no assurance that our value enhancement efforts will result in property value increases that exceed the costs we incur in such efforts, or even any increase at all.

The net assets in liquidation at June 30, 2021 (\$22,468,881) results in estimated liquidating distributions of approximately \$15.15 per common share (based on 1,482,680 shares outstanding), based on estimates and other indications of sales value (predicated on current asset values) which includes some but not all of the actual potential sales proceeds that may result directly or indirectly from our land entitlement efforts. Some of the additional value that may be derived from the land entitlement efforts is not included in the estimated liquidating distributions as of June 30, 2021 because the amount of such additional value that may result from such efforts is too difficult to predict with sufficient certainty. The Company believes the land entitlement efforts will enhance estimated distributions per share through the improved values (a large amount of which has already been included in the reported value for real estate held for sale) from the sales of the Flowerfield and Cortlandt Manor properties net of the costs to achieve the improved values and other expenses. This estimate of liquidating distributions includes projections of costs and expenses to be incurred during the period required to complete the plan of liquidation. There is inherent uncertainty with these projections, and they could change materially based on the timing of the sales, changes in values of the Cortlandt Manor and/or Flowerfield properties (whether market driven or resulting from the land entitlement efforts) net of any bonuses (if such values exceed the minimum values required to pay bonuses under the retention bonus plan), favorable or unfavorable changes in the land entitlement costs, the performance of the underlying assets, the market for commercial real estate properties generally and any changes in the underlying assumptions of the projected cash flows.

The following table summarizes the estimates to arrive at the Net Assets in Liquidation as of June 30, 2021 (dollars are in millions).

June 30, 2021 cash and cash equivalents balance	\$	2.41
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The following table summarizes the estimates to arrive at the Net Assets in Liquidation as of June 30, 2021 (dollars are in millions).

June 30, 2021 cash and cash equivalents balance	\$ 2.41
Restricted cash	0.17
Principal payments on loan	(6.23)
Free cash flow from rental operations	1.20 (i)
General and administrative expenses	(2.45) (ii)
Land entitlement costs in pursuit of the highest and best use	(1.11) (iii)
Gross real estate proceeds	38.55
Selling costs on real estate	(3.01)
Retention bonus plan for directors, officers and employees	(2.91)
Final liquidation and dissolution costs	(1.53) (iv)
Other	(2.62) (v)
Net Assets in Liquidation	<u>\$ 22.47 (vi)</u>

- (i) The Company estimates the cash proceeds from rental operations net commissions and rental costs, inclusive of expenditures to preserve or improve the properties at its current estimated market value will total \$1.20.
- (ii) The general and administrative expenses, excluding final liquidation costs, is estimated to be \$(2.45).
- (iii) The Company is considering various options to maximize total value during the liquidation process. The Company estimates that it will incur approximately \$1.11 million in costs over the liquidation period ending December 31, 2022 to obtain entitlements, inclusive of special permits that it believes will result in maximizing the values in the Flowerfield and Cortlandt Manor properties. The Company does not intend to develop the properties but rather to commit resources to position the properties for sale in a timely manner with all entitlements necessary to achieve maximum pre-construction values. During the process of pursuing such entitlements, the Company may entertain offers from potential buyers who may be willing to pay premiums for the properties that the Company finds more acceptable from a timing or value perspective than completing the entitlement processes.
- (iv) The costs represent all anticipated costs to liquidate the Company including D&O tail, severance and professional fees.
- (v) The Company estimates interest income will be offset by interest expense and the settlement of its working capital accounts resulting in a balance of \$(2.62).
- (vi) The net assets in liquidation on June 30, 2021 would result in liquidating distributions of approximately \$15.15 per common share (\$22.47 million with 1,482,680 shares outstanding). The Company believes the land entitlement efforts will enhance estimated distributions per share through the improved values from the sales of the Flowerfield and Cortlandt Manor properties. This estimate of liquidating distributions includes projections of costs and expenses to be incurred during the period required to complete the liquidation process. There is inherent uncertainty with these projections, and they could change materially based on the timing of the sales, favorable or unfavorable changes in the land entitlement costs, the performance of the underlying assets and any changes in the underlying assumptions of the projected cash flows.

Discussion of Changes in Net Assets

Gyrodyne’s strategy is to enhance the value of Flowerfield and Cortlandt Manor, by pursuing various entitlement opportunities, which the Gyrodyne Board believes will improve the potential of obtaining better values for such properties. The pursuit of the highest and best use of Flowerfield and Cortlandt Manor may involve other strategies to maximize the returns for our shareholders. Gyrodyne intends to dissolve after it completes the disposition of all of its real property assets, applies the proceeds of such dispositions first to settle any debts and claims, pending or otherwise, against Gyrodyne, and then makes liquidating distributions to holders of Gyrodyne common shares. Therefore, the Company includes in its financial statements the Consolidated Statement of Changes in Net Assets for the six-months ended June 30, 2021, which is discussed below:

Net assets in liquidation on January 1, 2021	\$ 22,487,944
Changes in net assets in liquidation from January 1 through June 30, 2021:	
Change in liquidation value of real estate	-
Remeasurement of assets and liabilities in liquidation	(19,063)
Total change in net assets in liquidation	<u>\$ (19,063)</u>
Net assets in liquidation on June 30, 2021	<u>\$ 22,468,881</u>

Liquidity and Capital Resources

Cash Flows:

As we pursue our plan to sell our properties strategically, including certain enhancement efforts, we believe that a main focus of management is to effectively manage our net assets through cash flow management of our tenant leases, maintaining or improving occupancy, and enhance the value of the Flowerfield and Cortlandt Manor properties via the pursuit of the associated change in entitlements.

As the Company executes on the sale of assets, it will review its capital needs and make prudent distribution decisions regarding any excess cash. Upon completion of these activities, Gyrodyne will distribute the remaining cash to its shareholders and then proceed to complete the

Liquidity and Capital Resources

Cash Flows:

As we pursue our plan to sell our properties strategically, including certain enhancement efforts, we believe that a main focus of management is to effectively manage our net assets through cash flow management of our tenant leases, maintaining or improving occupancy, and enhance the value of the Flowerfield and Cortlandt Manor properties via the pursuit of the associated change in entitlements.

As the Company executes on the sale of assets, it will review its capital needs and make prudent distribution decisions regarding any excess cash. Upon completion of these activities, Gyrodyne will distribute the remaining cash to its shareholders and then proceed to complete the dissolution of the Company, delist its shares from Nasdaq or other exchange platform and terminate its registration and reporting obligations under the Securities Exchange Act of 1934, as Amended (the "Exchange Act"). Gyrodyne is required to make adequate provisions to satisfy its known and unknown liabilities which could substantially delay or limit its ability to make future distributions to shareholders. The process of accounting for liabilities, including those that are currently unknown or whose amounts are uncertain may involve difficult valuation decisions which could adversely impact the amount or timing of any future distributions.

We finance our operations through cash on hand, supplemented by cash available under the Company's credit facilities. Certain of the Company's major vendors (including land development vendors) have agreed to defer payment on 50% of their fees until the subdivided lot is sold. Additionally, on December 6, 2019, the Company's Board of Directors approved the Gyrodyne, LLC Nonqualified Deferred Compensation Plan for Employees and Directors (the "DCP") effective as of January 1, 2020. The plan is a nonqualified deferred compensation plan maintained for officers and directors of the Company. Under the DCP, officers and directors may elect to defer a portion of their compensation to the DCP and receive interest on such deferred payments at a fixed rate of 5%. All DCP benefits will be paid in a single lump sum cash payment on December 15, 2026, unless a Plan of Liquidation is established for Gyrodyne before the distribution date in which case all benefits will be paid in a single lump sum cash payment after execution of an amendment to terminate the DCP (*See Deferred Compensation Plan above*).

We entered into a credit facility on March 21, 2018 which was amended and extended that provided up to \$3.0 million in financing for tenant improvements (the "Original Line"). The Company has drawn down approximately \$2.2 million for tenant and associated common area improvements. Pursuant to the terms of the loan, on April 30, 2021, the loan converted to the Permanent Phase with an outstanding principal balance of \$2,200,000. The Company no longer has access to the \$800,000 unused balance.

On January 24, 2019, the Company secured a loan evidenced by a secured non-revolving business line of credit and promissory note with the Original Line bank for up to \$3,000,000 to provide access to additional working capital to fund entitlements and operations through final liquidation. As of January 28, 2021, the line is fully drawn. Pursuant to the terms of the loan, on May 20, 2021, the loan converted to the Permanent Phase with an outstanding principal balance of \$3,000,000.

To secure access to additional working capital, the Company, through its subsidiary GSD Cortlandt, LLC ("GSD Cortlandt") secured a loan evidenced by a non-revolving business line of credit agreement and promissory note with the Original Line bank for up to \$2,500,000 which closed on July 16, 2020. The term is 24 months, with an option to extend for an additional 12 months. The interest rate is a variable rate equal to the daily highest prime rate published by the Wall Street Journal plus 100 basis points (1%), rounded up to the nearest 1/8 percent, but in no event less than four and three quarters percent (4.75%). The terms of the loan originally limited access to certain amounts, contingent upon GSD Cortlandt securing purchase agreements for one or both Cortlandt Property lots. On February 22, 2021, the loan was amended to remove such limitation on draws. Advances of \$379,765 and \$670,235, were drawn at closing and on January 28, 2021, respectively. Under the line, the balance of \$1,450,000 is available upon the Lender's discretion.

In August 2021, the Company, through its subsidiary GSD Cortlandt, LLC ("GSD Cortlandt"), received a commitment letter for a \$4.95 million term loan ("Mortgage Loan"), a portion of the proceeds will be used to pay off the existing GSD Cortlandt debt facility of which \$1,050,000 is outstanding. The term of the Mortgage Loan is five years with an option to extend an additional five years ("Extension Period"). Until the initial maturity date, the Mortgage Loan shall bear interest at an annual rate of interest equal at all times to 3.75%. If the maturity date is extended for the Extension Period, the rate of interest on the Mortgage Loan shall adjust and be fixed for the Extension Period to an annual rate of interest equal at all times to the greater of (i) 3.75% or (ii) 275 basis points in excess of the weekly average yield on United States Treasury Securities adjusted to a constant maturity of five years as most recently made available by the Federal Reserve Board as of thirty days prior to the first day of the extended term. The Mortgage Loan will be paid in monthly installments of principal and interest calculated on the basis of a thirty-year amortization schedule. If the maturity date is extended for the Extension Period, the amount of each monthly installment shall be recalculated for the Extension Period based on the adjusted interest rate on the Mortgage Loan and an amortization schedule of twenty-five years.

The Mortgage Loan may be prepaid in whole or in part, at any time, provided that the borrower shall pay to the bank with each such prepayment a prepayment fee equal to (i) during the first loan year and, if applicable, the first loan year of the Extension Period, five percent of the amount of such prepayment; (ii) during the second loan year and, if applicable, during the second loan year of the Extension Period, four percent of the amount of such prepayment; (iii) during the third loan year and, if applicable, during the third loan year of the Extension Period, three percent of the amount of such prepayment; (iv) during the fourth loan year and, if applicable, during the fourth loan year of the Extension Period, two percent of the amount of such prepayment; and (v) during the fifth loan year and, if applicable, during the fifth year of the Extension Period, one percent of the amount of such prepayment. There shall be no prepayment fee for any prepayment made during the sixty day period immediately preceding the initial maturity date or the last sixty days of the Extension Period. All prepayments

The Mortgage Loan may be prepaid in whole or in part, at any time, provided that the borrower shall pay to the bank with each such prepayment a prepayment fee equal to (i) during the first loan year and, if applicable, the first loan year of the Extension Period, five percent of the amount of such prepayment; (ii) during the second loan year and, if applicable, during the second loan year of the Extension Period, four percent of the amount of such prepayment; (iii) during the third loan year and, if applicable, during the third loan year of the Extension Period, three percent of the amount of such prepayment; (iv) during the fourth loan year and, if applicable, during the fourth loan year of the Extension Period, two percent of the amount of such prepayment; and (v) during the fifth loan year and, if applicable, during the fifth year of the Extension Period, one percent of the amount of such prepayment. There shall be no prepayment fee for any prepayment made during the sixty day period immediately preceding the initial maturity date or the last sixty days of the Extension Period. All prepayments shall be accompanied with accrued and unpaid interest through the date of prepayment. Notwithstanding the foregoing, in the event the premises are sold to a bona fide third-party purchaser within the initial two years of the term of the Mortgage Loan, the prepayment fee to be paid upon repayment of the Mortgage Loan in full shall be reduced by fifty percent.

The loan will be secured by the Cortlandt property located at 1985 Crompond Road (5.01 acres) and is expected to close in the third quarter of 2021.

We believe leveraging our capital improvements will allow us to continue focusing our cash on funding the pursuit of entitlements and our operations. The Company believes the combination of the investments in tenant improvements related to strategically important leases and the pursuit of entitlements will enable the Company to maximize the ultimate real estate value and the distributions per share.

As of June 30, 2021, the Company had cash and cash equivalents totaling approximately \$2.41 million. The Company anticipates that its current cash and cash equivalent balance and access to credit facilities will be adequate to fund its process of seeking entitlements and selling assets and subsequent dissolution. The \$2.41 million of cash will be partially used to fund our efforts to generate the highest values for the Flowerfield and Cortlandt Manor properties while simultaneously pursuing the strategic sale of these properties. The pursuit of the highest values of Flowerfield and Cortlandt Manor may involve the other investments and or other strategies to maximize the returns for our shareholders. The Company is estimating and reporting in the consolidated statements of net assets total gross cash proceeds from the sale of its assets of approximately \$38.55 million. Based on the Company's current cash balance and the above forecast, the Company estimates distributable cash stemming from the liquidation of the Company of approximately \$22.47 million.

The Company's primary sources of funds are as follows:

- current cash and cash equivalents;
- rents and tenant reimbursements received on our remaining real estate operating assets;
- sale of assets; and
- credit facilities.

Excluding gross proceeds from the sale of assets, the Company's gross rents and tenant reimbursements net of rental expenses is less than the combined total annual general and administrative costs, capital expenditures and land entitlement costs creating a net use of cash on an annual basis through the liquidation process. The Company believes the cash and cash equivalents plus the proceeds from the sale of assets and funds available through its credit facilities will exceed the costs to complete the liquidation of the Company. In addition, the Company has and will continue to review operating activities for possible cost reductions throughout the liquidation process.

Major elements of the Company's cashflows for the six-months ended June 30, 2021 were as follows:

- Operating cashflows
\$1,290,329 in rent and reimbursements.
(\$815,748) in operating costs.
(\$43,491) in capital expenditures.
- (\$1,078,284) in corporate expenditures.
- (\$109,675) of land entitlement costs incurred for the Cortlandt Manor property.
- (\$274,627) of land entitlement costs incurred for the Flowerfield property.
- \$430,702 of net proceeds from the sale of real estate.
- \$1,069,966 of proceeds from the Company's available debt facilities net of principal payments.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company places its temporary cash investments with high credit quality financial institutions. Certain financial instruments could potentially subject the Company to concentrations of credit risk, such as cash equivalents and longer-term investments. The Company maintains bank account balances, which exceed FDIC insurance limits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash. Management does not believe significant credit risk exists on June 30, 2021.

The Company believes there have been no significant changes in market risk from that disclosed in the Company's Report on Form 10-K for the twelve months ended December 31, 2020, filed with the Securities and Exchange Commission on April 13, 2021.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company places its temporary cash investments with high credit quality financial institutions. Certain financial instruments could potentially subject the Company to concentrations of credit risk, such as cash equivalents and longer-term investments. The Company maintains bank account balances, which exceed FDIC insurance limits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash. Management does not believe significant credit risk exists on June 30, 2021.

The Company believes there have been no significant changes in market risk from that disclosed in the Company's Report on Form 10-K for the twelve months ended December 31, 2020, filed with the Securities and Exchange Commission on April 13, 2021.

Item 4. Controls and Procedures.

The Company's management, including the Chief Executive Officer ("CEO")/ Chief Financial Officer ("CFO"), has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report (the "Evaluation Date"). Based on such evaluation, our management concluded that our disclosure controls and procedures were effective, at a reasonable assurance level, as of the Evaluation Date, to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management in a manner that allows timely decisions regarding required disclosures.

An evaluation was performed under the supervision and with the participation of the Company's management of the effectiveness of the design and operation of the Company's procedures and internal control over financial reporting as of December 31, 2020. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework of 2013 (the "2013 COSO Framework"). Based on that evaluation, the Company's management concluded that the Company's internal controls over financial reporting were effective as of June 30, 2021.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting identified with our evaluation that occurred during the fiscal quarter ended June 30, 2021, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Putative Class Action Lawsuit

On August 14, 2015, the Company entered a Stipulation of Settlement (the "Settlement") providing for the settlement of a putative class action lawsuit against the Company and certain related parties. Under the Settlement, Gyrodyne agreed that any sales of its properties would be effected only in arm's-length transactions at prices at or above their appraised values as of 2014.

The 2014 aggregate appraised value for our properties was approximately \$100,000 higher than the 2013 aggregate appraised value for such properties. As of June 30, 2021, the aggregate appraised value of our remaining unsold properties exceeded the respective 2014 aggregate appraised value for such properties. See, "Risk Factors – Stipulation of Settlement prohibits us from selling our remaining properties at prices below the December 2014 appraised values" in the Company's annual report.

General

In addition to the foregoing, in the normal course of business, Gyrodyne is a party to various legal proceedings. After reviewing all actions and proceedings pending against or involving Gyrodyne, management considers that any loss resulting from such proceedings individually or in the aggregate will not be material to Gyrodyne's financial condition or results of operations.

Item 1A. Risk Factors

For information regarding factors that could affect our business, results of operations, financial condition and liquidity, see the risk factors discussed under Part I, Item 1A of our 2020 Form 10-K filed with the Securities and Exchange Commission on April 13, 2021.

The following risk factors which appear in our 2020 Form 10-K are updated as follows:

Community opposition could adversely impact our efforts to obtain entitlements and enhance the value of our properties.

The process of seeking required entitlements, permits and approvals is sometimes delayed or prevented due to community opposition and adverse publicity from neighboring property owners, members of the general public or non-governmental organizations, or other third

The following risk factors which appear in our 2020 Form 10-K are updated as follows:

Community opposition could adversely impact our efforts to obtain entitlements and enhance the value of our properties.

The process of seeking required entitlements, permits and approvals is sometimes delayed or prevented due to community opposition and adverse publicity from neighboring property owners, members of the general public or non-governmental organizations, or other third parties and other factors beyond our control. The Company's efforts to seek entitlements, permits or other approvals have been the subject of protests by civic groups asserting environmental, traffic and congestion issues as well as adverse impact to the historic nature of the area. Such community opposition could lead to the denial of entitlements, permits or other approvals essential to our efforts to increase the value of our properties or to the imposition of restrictive conditions with which it is not practicable or feasible to comply and could impact our ability to enhance the value of our properties.

Even if the Company is successful in securing approval of its subdivision application, there is a substantial risk that opponents of our subdivision plan, and other aspect of our entitlement efforts may challenge the approval through a lawsuit under Article 78 of New York's Civil Practice Law & Rules, naming both the Town of Smithtown and the Company as defendants. Challenging a government decision in an Article 78 proceeding can lead to delay in enforcement of the government action, whether or not the suit is successful. Petitioners often seek a temporary restraining order, preliminary injunction or other form of stay of some or all of the challenged action, and the government sometimes agrees to delay implementation until legal challenges are resolved. Although Article 78 proceedings take place on an expedited timeline and generally without discovery, an Article 78 proceeding could take two years or more to run its course given the likelihood of appeal and the impact the ongoing pandemic has had on the court system. Consequently, the commencement of an Article 78 proceeding with respect to an approval of our subdivision application and other aspect of our entitlement efforts could result in a further extension of the Company's timeline for completing the process of securing entitlements, selling our properties and distributing net proceeds.

Our business, operations and timelines for pursuing entitlements, property sales and distributions of proceeds could be adversely affected by the Coronavirus pandemic.

The global health crisis caused by the novel coronavirus ("COVID-19") pandemic and its resurgences has and may continue to negatively impact economic activity, which, despite progress in vaccination efforts, remains uncertain and cannot be predicted with confidence. In addition, a new Delta variant of COVID-19, which appears to be the most transmissible variant to date, has begun to spread domestically. The impact of the Delta variant cannot be predicted at this time, and could depend on numerous factors, including vaccination rates among the population, the effectiveness of COVID-19 vaccines against the Delta variant and the response by governmental bodies and regulators.

The Coronavirus pandemic has affected and will likely for the foreseeable future affect our timelines for pursuing entitlements, selling our properties and making distributions. The pandemic may result in delays in necessary interactions with local authorities and ultimately delays in receiving approvals from such authorities due to limitations in employee resources or forced furlough of government employees.

The real estate market is expected to continue to be adversely affected which could negatively impact the timing of sales and the resulting value of our real estate. A continuation or worsening of the levels of market disruption and volatility seen in the recent past could also have an adverse effect on the Company's ability to access capital, which could in the future negatively affect the Company's liquidity. In addition, a recession or market correction resulting from the spread of COVID-19 could materially affect the Company's business and the value of our properties.

Not-for-profit corporations and other tenants that are neither medical offices nor part of or affiliated with SBU or SBU Hospital, which together account for approximately 40% (\$888,000) of the Company's projected annual rental revenues for 2021, are expected to be adversely affected disproportionately by the economic ramifications of COVID-19. Although the duration and full extent of this disruption cannot be predicted with any certainty, the impact of COVID-19 on our future results could be significant and will largely depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and its variants, including the Delta variant, the success of actions taken to contain or treat the coronavirus and reactions by consumers, companies, governmental entities and capital markets. We are actively working with our tenants to manage and mitigate the impact to COVID-19 on the Company's operations, liquidity and resulting Net Asset Value.

Finally, the Company's ability to operate seamlessly and limit any adverse impact on our forecasted Net Asset Value will depend in part on whether any of its key employees is infected by the Coronavirus and becomes ill from COVID-19.

The Company continues to monitor the impacts of COVID-19 on our business operations. At this time, however, it is difficult to predict how long the potential operational impacts of COVID-19 will last or to what degree further disruption might impact the Company's operations and financial results.

Items 2 through 5 are not applicable to the Company in the six-months ended June 30, 2021.

Item 6. Exhibits.

- 3.1 [Articles of Organization of Gyrodyne, LLC, dated as of October 3, 2013 \(1\)](#)
- 3.2 [Amended and Restated Limited Liability Company Agreement of Gyrodyne, LLC \(2\)](#)

Item 6. Exhibits.

- 3.1 [Articles of Organization of Gyrodyne, LLC, dated as of October 3, 2013 \(1\)](#)
- 3.2 [Amended and Restated Limited Liability Company Agreement of Gyrodyne, LLC \(2\)](#)
- 10.1 [Amended and Restated Retention Bonus Plan \(3\)](#)
- 10.2 [Amendment No. 2 to the Retention Bonus Plan \(4\)](#)
- 10.3 [Amendment No. 3 to the Retention Bonus Plan \(5\)](#)
- 31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Chief Executive Officer and Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \(6\)](#)
- 32.1 [CEO and CFO Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. \(7\)](#)
- 101.INS Inline XBRL Instance (6)
- 101.SCH Inline XBRL Taxonomy Extension Schema (6)
- 101.CAL Inline XBRL Taxonomy Extension Calculation (6)
- 101.DEF Inline XBRL Taxonomy Extension Definition (6)
- 101.LAB Inline XBRL Taxonomy Extension Labels (6)
- 101.PRE Inline XBRL Taxonomy Extension Presentation (6)
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
- (1) Incorporated herein by reference to Exhibit 3.1 to the Company’s Registration Statement on Form S-4 filed with the Securities and Exchange Commission on October 21, 2013.
- (2) Incorporated herein by reference to Exhibit 3.2 to the Company’s Registration Statement on Form 8-A12B filed with the Securities and Exchange Commission on September 1, 2015.
- (3) Incorporated herein by reference to the Company’s Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 26, 2016.
- (4) Incorporated herein by reference to the Company’s Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 31, 2018.
- (5) Incorporated herein by reference to the Company’s Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 2, 2018.
- (6) Filed as part of this Report.
- (7) Furnished herewith in accordance with Item 601(b)(32) of Regulation S-K. This Exhibit is not deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section. Such certification will not be deemed incorporated by reference into any filings under the Securities Act, except to the extent that the registrant specifically incorporates it by reference.

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, LLC

Date: August 6, 2021

/s/ Gary Fitlin
 By Gary Fitlin
 President and Chief Executive Officer
 Chief Financial Officer and Treasurer

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Rule 13a-14(a)/15d-14(a) Certification

I, Gary Fitlin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Gyrodyne, LLC;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2021

/s/ Gary Fitlin

By Gary Fitlin,
President and Chief Executive Officer,
Chief Financial Officer and Treasurer

**CFO CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Gyrodyne, LLC (the "Company") on Form 10-Q for the period ended June 30, 2021, as filed with the Securities and Exchange Commission (the "Report"), I, Gary Fitlin, Chief Executive Officer and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the Company as of the dates presented and consolidated results of operations of the Company for the periods presented.

Date: August 6, 2021

/s/ Gary Fitlin
By Gary Fitlin,
President and Chief Executive Officer,
Chief Financial Officer and Treasurer