

GYRODYNE CO OF AMERICA INC

Form S-1

March 06, 2015

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As filed with the Securities and Exchange Commission on March 6, 2015

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

GYRODYNE COMPANY OF AMERICA, INC.
(Exact name of Registrant as specified in its charter)

New York (State or Other Jurisdiction of Incorporation or Organization)	6512 (Primary Standard Industrial Classification Code Number)	11-1688021 (I.R.S. Employer Identification Number)
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One Flowerfield, Suite 24
Saint James, New York 11780
(631) 584-5400
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal
Executive Offices)

Frederick C. Braun III
President and Chief Executive Officer
Gyrodyne Company of America, Inc.
One Flowerfield, Suite 24

Saint James, New York 11780

(631) 584-5400

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the Registration Statement is declared effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement under the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer		Accelerated Filer
Non-accelerated filer	(Do not check if smaller reporting company)	Smaller Reporting Company

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee
Common Stock, par value \$1.00 per share, underlying subscription rights	—	—	5,560,050 ⁽²⁾	\$ 646.08
Non-transferable Subscription Rights to purchase Common Stock	—	—	—	⁽³⁾
Total				\$ 646.08

(1) This registration statement relates to: (a) non-transferable subscription rights to purchase common stock of the Registrant, which subscription rights are to be distributed to holders of the Registrant's common stock; and (b) the shares of common stock deliverable upon the exercise of the non-transferable subscription rights pursuant to the rights offering.

(2) Represents the gross proceeds from the assumed exercise of all non-transferable subscription rights to be distributed.

(3) Pursuant to Rule 457(g) under the Securities Act of 1933, no separate registration fee is required for the rights because the rights are being registered in the same registration statement as the common stock of the Registrant underlying the rights.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Security and Exchange Commission, acting pursuant to said section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 6, 2015

PRELIMINARY PROSPECTUS

GYRODYNE COMPANY OF AMERICA, INC.

**[] SHARES OF COMMON STOCK ISSUABLE UPON THE EXERCISE
OF SUBSCRIPTION RIGHTS AT \$[] PER SHARE**

We are distributing, at no charge to our shareholders, non-transferable subscription rights to purchase an aggregate of [] shares of common stock at a price of \$[] per whole share. We refer to this offering as the “rights offering.”

We are offering to each of our shareholders [] subscription rights for every two full common shares owned by each shareholder as of the close of business on [], 2015, the record date, provided that no fractional shares will be issued in the rights offering and exercises therefore will be rounded to the nearest whole number, with halves rounded down. Additionally, shareholders may over-subscribe for additional shares of common stock to the extent that offered subscription rights are not exercised by other shareholders, although we cannot assure you that we will fill any over-subscriptions. If all rights are exercised and all of the shares issuable upon exercise of the rights are sold in this offering, the total purchase price of the shares offered in the rights offering would be approximately \$5,560,050.

We have not entered into any standby purchase agreement or other similar arrangement in relation to this rights offering. This offering is being conducted on a best-efforts basis and there is no minimum number of shares that we must sell or amount of proceeds that we must receive in order for us to close the offering.

All members of our board of directors (who are also shareholders) have advised us they intend to exercise their basic subscription privilege under rights received and that they also intend to exercise their over-subscription privilege with respect to additional shares that become available for purchase. If they do so, their ownership percentage may increase significantly if shareholders do not exercise basic subscription privileges with respect to a significant number of shares. Their expressed intention, however, does not constitute a binding obligation on their part.

To the extent you properly exercise your over-subscription privilege for a number of shares of common stock that exceeds the number of the unsubscribed shares available to you, the subscription agent will return to you any excess subscription payments, without interest or penalty, as soon as practicable following the expiration of the rights offering.

We have engaged Computershare Trust Company, N.A. to serve as the subscription agent for the rights offering. The subscription agent will hold in escrow the funds we receive from subscribers until we complete or cancel the rights offering.

The subscription rights will expire if they are not exercised by 5:00 p.m., New York City time, on [], 2015, but we may extend the rights offering for additional periods ending no later than [], 2015. We may cancel the rights offering for any reason at any time before it expires. If we cancel the rights offering, the subscription agent will return all subscription payments received, without interest or penalty, as soon as practicable.

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You should carefully consider whether to exercise your subscription rights before the rights offering expires. All exercises of subscription rights are irrevocable. The purchase of shares of common stock involves a high degree of risk.

You should read “Risk Factors” beginning on page 20. Our board of directors is making no recommendation regarding your exercise of the subscription rights.

The subscription rights are non-transferable. The shares of common stock to be issued upon exercise of the subscription rights will be listed for trading on the NASDAQ Capital Market under the symbol “GYRO.” The last reported sales price of our common stock on [], 2015 was \$[] per share.

We have not entered into any standby purchase agreement or other similar arrangement in relation to this rights offering. The shares of common stock are being offered directly by us without the services of an underwriter or selling agent.

	Per Share	Total
Subscription Price	\$ []	\$5,560,050 (1)
Estimated Expenses	\$ []	\$510,050
Proceeds to Us	\$ []	\$5,050,000

(1) Assumes the rights offering is fully subscribed.

Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is March 6, 2015.

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ABOUT THIS PROSPECTUS

You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus regardless of the time of delivery of this prospectus or the time of any exercise of the subscription rights. Our business, financial condition, results of operations and prospects may have changed since the date of this prospectus.

In this prospectus, we rely on and refer to information and statistics regarding our industry. We obtained this market data from independent publications or other publicly available information that we believe are reliable.

No action is being taken in any jurisdiction outside the United States to permit a public offering of our securities or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to those jurisdictions.

Unless the context indicates otherwise, all references in this prospectus to the “Company,” “Gyrodyne,” “we,” “us” and “our” refer to Gyrodyne Company of America, Inc. and our wholly owned subsidiaries, except that in the discussion of our subscription rights and capital stock and related matters, these terms refer solely to Gyrodyne Company of America, Inc. and not to its subsidiaries.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus are forward-looking statements about Gyrodyne within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Statements containing the words “believes,” “anticipates,” “estimates,” “expects,” “intends,” “plans,” “seeks,” “will,” “may,” “should,” “would,” “projects,” “continues” and similar expressions, or the negative of these terms constitutes forward-looking statements that involve risks and uncertainties. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and they are included in this prospectus for the purpose of invoking these safe harbor provisions. Such statements are based on current expectations and are subject to risks, uncertainties and changes in condition, significance, value and effect. In September 2013, our board of directors approved a plan of liquidation intended to qualify as a tax liquidation, which included a plan of merger and other

related transactions. The risks, uncertainties and changes in condition, significance, value and effect that could cause Gyrodyne's actual results to differ materially from anticipated results include risks and uncertainties relating to the process of exploring strategic alternatives, risks associated with Gyrodyne's ability to implement the tax liquidation, plan of liquidation or the plan of merger, the risk that the proceeds from the sale of assets may not be sufficient to satisfy our obligations to our current and future creditors, the risk of shareholder litigation relating to the tax liquidation, the plan of liquidation or the plan of merger and other unforeseeable expenses related to the proposed liquidation, the tax treatment of condemnation proceeds, the effect of economic and business conditions, risks inherent in the real estate markets of Suffolk and Westchester Counties in New York, Fairfax County in Virginia and Palm Beach County in Florida, the ability to obtain additional capital to develop the real estate that we manage and other risks detailed from time to time in Gyrodyne's SEC filings. Except as may be required under federal law, we undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur.

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QUESTIONS AND ANSWERS RELATING TO THE RIGHTS OFFERING

The following are what we anticipate will be common questions about the rights offering. The answers are based on selected information from this prospectus. The following questions and answers do not contain all of the information that may be important to you and may not address all of the questions that you may have about the rights offering. This prospectus contains more detailed descriptions of the terms and conditions of the rights offering and provides additional information about us and our business, including potential risks related to the rights offering, our common stock, and our business.

Exercising your subscription rights and investing in our common stock involves a high degree of risk. We urge you to carefully read the section entitled “Risk Factors” beginning on page 20 of this prospectus, and all other information included in this prospectus in its entirety before you decide whether to exercise your subscription rights.

What is a rights offering?

A rights offering is a distribution of subscription rights on a pro rata basis to all shareholders of a company. We are distributing to holders of our issued and outstanding capital stock as of 5:00 p.m., New York City time, on [], 2015, the “record date,” at no charge, non-transferable subscription rights to purchase shares of our common stock. You will receive [] subscription rights (rounded to the nearest whole number, with halves rounded down) for every two shares of our capital stock you own as of 5:00 p.m., New York City time, on the record date. The subscription rights will be evidenced by rights certificates. Each subscription right consists of a basic subscription privilege and an over-subscription privilege.

What is the basic subscription privilege?

Shareholders will receive in the rights offering [] subscription rights for each two shares held. Each whole subscription right gives our shareholders the opportunity to purchase one share of our common stock for \$[] per share. We determined the ratio of subscription rights to distribute per our issued and outstanding shares ([]) by dividing the number of shares we determined to offer in the rights offering, [], by the number of shares issued and outstanding on the record date ([]/1,482,680 = []).

What is the over-subscription privilege?

We do not expect all of our shareholders to exercise all of their basic subscription privileges. The over-subscription privilege provides shareholders that do exercise their entire basic subscription privileges the opportunity to purchase the shares that are not purchased by other shareholders. Accordingly, if you fully exercise your basic subscription privilege and other shareholders do not fully exercise their basic subscription privileges, then you may also exercise an over-subscription privilege to purchase additional shares of common stock that remain unsubscribed at the expiration of the rights offering, subject to the availability and pro rata allocation of such shares among persons exercising this over-subscription privilege. To the extent that the number of the unsubscribed shares are not sufficient to satisfy all of the properly exercised over-subscription privilege requests, then the available shares will be allocated pro rata among those who properly exercise their over-subscription privileges based on the number of shares each shareholder subscribed for under his, her or its basic subscription privilege. “Pro rata” means in proportion to the number of shares of our common stock that you and the other shareholders have subscribed for under the over-subscription privilege, so that the number of shares that would be allocated to you would equal the number of shares you have subscribed for in your over-subscription request multiplied by a fraction, the numerator of which is the number of available shares and the denominator of which is the aggregate number of over-subscription shares requested by all shareholders.

In order to properly exercise your over-subscription privilege, you must deliver the subscription payment related to your over-subscription privilege prior to the expiration of the rights offering. Because we will not know the total number of unsubscribed shares prior to the expiration of the rights offering, if you wish to maximize the number of shares you purchase pursuant to your over-subscription privilege, you will need to deliver payment in an amount equal to the aggregate subscription price for the maximum number of shares of our common stock available to you, assuming that no shareholder other than you has purchased any shares of our common stock pursuant to their basic subscription privilege and over-subscription privilege. See “The Rights Offering—Over-Subscription Privilege.”

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How many shares may I purchase if I exercise my subscription rights?

Each subscription right entitles you to purchase one whole share of our common stock for \$[] per share. We will not issue fractional subscription rights or shares of common stock in the rights offering, and holders will only be entitled to purchase a whole number of shares of common stock. You may exercise any number of your subscription rights (including the over-subscription privilege), or you may choose not to exercise any subscription rights. As explained elsewhere in this prospectus, there is no limit on the number of offered shares that may be purchased pursuant to your over-subscription privilege.

If you hold your shares in street name through a broker, bank, or other nominee who uses the services of the Depository Trust Company, or “DTC,” then DTC will issue [] subscription rights to your nominee for every two shares of our common stock you own at the close of business on the record date. Each subscription right can then be used to purchase one share of common stock for \$[] per share pursuant to the basic subscription privilege. For more information, see the question “*What should I do if I want to participate in the rights offering, but my shares are held in the name of my broker, dealer, custodian bank or other nominees (commonly referred to as “street name”)?*” below.

Will fractional subscription rights or shares be issued in the rights offering?

No. We will not issue fractional subscription rights or subscription rights to purchase fractional shares of common stock in the rights offering. In allocating subscription rights among our shareholders, each two shares of capital stock held of record at the close of business on the record date will entitle the holder of such shares to receive [] subscription rights (rounded to the nearest whole number, with halves rounded down), and each subscription right granted in the rights offering may only be exercised for a full share of our common stock.

Are we requiring a minimum aggregate subscription to complete and close the rights offering?

No. This offering is being conducted on a best-efforts basis and there is no minimum number of shares that we must sell or amount of proceeds that we must receive in order for us to close the offering.

Are there backstop or standby purchasers?

No. We have not entered into any standby purchase agreement or other similar arrangement in relation to this rights offering.

Are there any limits on the number of shares I may purchase in this rights offering?

Yes. The total number of offered shares in this rights offering represents the maximum number of shares you may potentially purchase. In all cases, you are entitled (but not required) to purchase all shares available to you under your basic subscription privilege. Shares in excess of those available to you under your basic subscription privilege must be purchased pursuant to your over-subscription privilege. As explained elsewhere in this prospectus, other shareholders may also exercise their over-subscription privilege. If this occurs, the number of shares available for purchase by you will be reduced accordingly.

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In no event may you exercise subscription and over-subscription privileges to the extent that any such exercise would result in your owning, without approval of our board of directors, 20% or more of our issued and outstanding common stock, which is the ownership limitation that would trigger the provisions of our shareholder rights plan, after giving effect to your purchase under the basic subscription privilege and the over-subscription privilege.

In addition, to ensure compliance with the so-called “5/50 rule” of the Internal Revenue Code, which generally prohibits five or fewer shareholders from owning in the aggregate in excess of 50% of the value of the shares of a REIT during the last half of any of the REIT’s taxable years (starting with the REIT’s second taxable year), subscription and over-subscription privileges will be subject to proportionate cutbacks to the extent that any such exercises would result in five or fewer shareholders owning in the aggregate in excess of 50% of the value of our shares.

Am I required to exercise the subscription rights I receive in the rights offering?

No. You may exercise any number of your subscription rights, or you may choose not to exercise any subscription rights. However, if you choose not to exercise your subscription rights in full, the relative percentage of our shares of common stock that you own will decrease, and your voting and other rights will be diluted. Furthermore, if you fail to exercise your full basic subscription privilege, you will not be eligible to exercise your over-subscription privilege. For more information, see the question “*How many shares of capital stock will be issued and outstanding after the rights offering?*” below.

Will our directors and significant shareholders be exercising their subscription rights?

Our directors and any greater-than-5% beneficial shareholders may participate in this offering at the same subscription price per share as all other purchasers, but none of our directors or greater-than-5% beneficial shareholders are obligated to so participate. All directors (who are also shareholders) have indicated that they will purchase shares that are subject to their subscription rights, and that they will exercise their over-subscription privilege (if available), at the same subscription price offered to our shareholders. If they do so, their ownership percentage may increase significantly if shareholders do not exercise basic subscription privileges with respect to a significant number of shares. Nevertheless, none of our directors have executed agreements to purchase shares and there is no guarantee or commitment that they will subscribe for shares in the offering. Any shares purchased in the rights offering by our directors will be deemed “control securities” under federal securities rules and will likely not be eligible for public resale unless sold in accordance with the limitations of Rule 144 or the public resale of such shares is registered with the SEC.

Has our Board of Directors made a recommendation to our shareholders regarding the exercise of rights under the rights offering?

No. Our board of directors is making no recommendation regarding your exercise of the subscription rights. Shareholders who exercise their subscription rights risk loss on their investment. We cannot assure you that the market price of our common stock will be above the subscription price or that anyone purchasing shares at the subscription price will be able to sell those shares in the future at the same price or a higher price. You are urged to make your decision based on your own assessment of our business and the rights offering. See the “Risk Factors” section of this prospectus for a discussion of some of the risks involved in investing in our common stock.

Why are we conducting a rights offering?

Our board of directors believes that the rights offering will facilitate the vote of two-thirds of the outstanding shares needed under New York law to approve the proposed merger of Gyrodyne and Gyrodyne Special Distribution, LLC (“GSD”) with and into Gyrodyne, LLC (the “Merger”), which we believe is supported by holders of more than two-thirds of our outstanding shares. On June 5, 2014, Gyrodyne announced that a special meeting of Gyrodyne shareholders would be held on August 14, 2014 to authorize the Merger. Gyrodyne postponed the special meeting, first to August 27, 2014 and then to December 5, 2014, to allow additional time for shareholders to vote on the Merger. Although the shares that were voted in these previous attempts to conduct the special meeting were voted overwhelmingly in favor of the Merger, not enough shares were voted to achieve the two-thirds of the outstanding shares vote requirement. Accordingly, on November 4, 2014, Gyrodyne announced a further postponement of the special meeting until the first half of 2015. Given the small size of holdings of many Gyrodyne shareholders and the nature of various holders, we believe many holders may not have paid enough attention to the Merger to exercise their right to vote. The board believes, however, that shareholders who would exercise their subscription rights in the rights offering may be more interested in the current structure of Gyrodyne and thus more likely to vote their shares on the Merger proposal. If all rights in the rights offering are exercised and all of the shares issuable upon exercise of the rights are sold in this offering, there will be [] shares outstanding, in which case holders of at least [] shares will need to vote in favor of the Merger to satisfy the requirement that holders of two-thirds of the outstanding shares vote in favor of the Merger. There is no minimum number of shares, however, required to complete the rights offering. Gyrodyne intends to conduct the special meeting to authorize the Merger as soon as reasonably possible after the consummation of the rights offering.

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We are also conducting the rights offering because it provides our shareholders the opportunity to participate in an offering of our shares on a pro rata basis and minimizes the dilution of their ownership interest in our Company. The proceeds of the rights offering will provide Gyrodyne with needed liquidity as we pursue an orderly liquidation of the properties currently owned by GSD and managed by Gyrodyne.

How was the subscription price of \$[] per share determined?

The subscription price of \$[] per share was determined by our board of directors. Factors considered by the board included the price at which our shareholders might be willing to participate in the rights offering, historical and current trading prices of our common stock, our business prospects, the condition of the trading market for our common stock, the condition of the securities and capital markets in general and comparable precedent transactions in terms of the percentage of shares offered, the terms of the subscription rights being offered, the subscription price and the discount that the subscription price represented to the immediately prevailing closing prices for those offerings. The board also considered the advice of the investment banking firm of Coady Diemar Partners, which we retained to provide financial advisory services to us in connection with the offering. We cannot assure you that the market price for our common stock during the rights offering will be equal to or above the subscription price or that a subscribing owner of rights will be able to sell the shares of common stock purchased in the rights offering at a price equal to or greater than the subscription price.

How soon must I act to exercise my rights?

If you received a rights certificate and elect to exercise any or all of your subscription rights, the subscription agent must receive your completed and signed rights certificate and related payment prior to the expiration of the rights offering, which is [], 2015 at 5:00 p.m., New York City time. If you hold your shares in the name of a custodian bank, broker, dealer or other nominee, your custodian bank, broker, dealer or other nominee may establish a deadline prior to 5:00 p.m. New York City time, on [], 2015 by which you must provide it with your instructions to exercise your subscription rights and pay for your shares.

Although we will make reasonable attempts to provide this prospectus to all holders of subscription rights, the rights offering and all subscription rights will expire at 5:00 p.m., New York City time on [], 2015 (unless extended for up to 30 additional days), whether or not we have been able to locate each person entitled to receive subscription rights. Although we reserve the right to extend the expiration of the rights offering for up to 30 additional days, we currently do not intend to do so.

May I transfer my subscription rights?

No. You may not sell or transfer your subscription rights to anyone.

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Can the Board of Directors cancel, terminate, amend or extend the rights offering?

Yes. Although there is no present intention to do so, our board of directors may change the terms of the rights offering for any reason at any time. If we should make any fundamental changes to the terms set forth in this prospectus, we will offer potential purchasers who have subscribed for rights the opportunity to cancel such subscriptions, issue a refund of any money advanced by such shareholder and recirculate an updated prospectus. In addition, upon such event, we may extend the expiration date of this rights offering to allow holders of rights ample time to make new investment decisions and for us to recirculate updated documentation. The terms of the rights offering cannot be changed after the expiration date of the rights offering. We have the option to extend the rights offering and the period for exercising your subscription rights for up to 30 additional days, although we do not presently intend to do so. Our board of directors may cancel the rights offering at any time for any reason. If the rights offering is cancelled, all subscription payments received by the subscription agent will be returned promptly, without interest or penalty.

Will funds be held in escrow pending consummation or cancelation of the rights offering?

Yes. The subscription agent will hold funds received in payment for shares of the common stock in a segregated account pending completion of the rights offering. The subscription agent will hold this money in escrow until the rights offering is completed or is withdrawn and canceled. If the rights offering is canceled for any reason, all subscription payments received by the subscription agent will be returned promptly, without interest or penalty, as soon as practicable. In addition, all subscription payments received by the subscription agent will be returned, without interest or penalty, as soon as practicable, if subscribers decide to cancel their subscription rights in the event that we extend the rights offering for a period of more than 30 days after the expiration date or if there is a fundamental change to the rights offering.

When will I receive my subscription rights certificate?

Promptly after the date of this prospectus, the subscription agent will send a subscription rights certificate to each registered holder of our common stock as of the close of business on the record date, based on our shareholder register maintained by the transfer agent for our common stock. If you hold your shares of common stock through a brokerage account, bank, or other nominee, you will not receive an actual subscription rights certificate. Instead, as described in this prospectus, you must instruct your broker, bank or nominee whether or not to exercise rights on your behalf. If you wish to obtain a separate subscription rights certificate, you should promptly contact your broker, bank or other nominee and request a separate subscription rights certificate. If you hold your shares of common stock through a brokerage account, bank, or other nominee, it is not necessary to have a physical subscription rights certificate in order to exercise your subscription rights.

What will happen if I choose not to exercise my subscription rights?

If you do not exercise any subscription rights, the number of our shares of common stock you own will not change. Nevertheless, due to the fact that other shareholders may purchase shares in the rights offering, **your percentage ownership of Gyrodyne will be diluted** after the completion of the rights offering unless you do exercise your subscription rights. For more information, see the question “*How many shares of capital stock will be issued and outstanding after the rights offering?*” below.

How do I exercise my subscription rights?

If you wish to participate in the rights offering, you must take the following steps:

deliver payment to the subscription agent; and

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Executive	3,200	0	2.50	8/24/2009	1,600	2,720	0	0
V.P.	1,600		2.50	8/24/2010				
President	1,600		2.50	8/24/2011				
J. Michael Williams		1,600	2.50	8/24/2012				
CFO	6,400	0	2.50	8/24/2009	3,200	5,440	0	0
Scott Cunningham	3,200		2.50	8/24/2010				
		3,200	2.50	8/24/2011				
Senior V.P.	1,760	0	2.50	8/24/2009	880	1,496	0	0
Sharon Reynolds	880		2.50	8/24/2010				
		880	2.50	8/24/2011				
			2.50	8/24/2012				

Director Compensation

The following Director Compensation table sets forth information regarding compensation paid to our non-employee directors. Directors who are employed by us do not receive any compensation for their board activities.

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Name	Fees earned or paid in cash	Stock awards	Option awards	Non-equity incentive plan compensation	Change in pension value and non- qualified deferred compensation earnings	All other compensation	Total
Philip S. Radcliffe	\$500						\$500
Laurence E. Sturtz	500						500
Jeffrey Levine	500						500
Peter S. Hackett	500						500
Clarence A. Peterson	500						500

1 Messrs. Tenwick, Wade and Williams are Executive Officers and do not appear on this table and receive no director compensation.

The following discloses the aggregate number of stock option awards outstanding for all directors:

Mr. Tenwick 6,400 options currently exercisable at \$2.50 per share plus 3,000 warrants each to purchase one share of common stock at \$5.40 all exercisable within 60 days of October 15, 2007.

Mr. Wade 6,400 options currently exercisable at \$2.50 per share plus 48,000 warrants each to purchase one share of common stock at \$2.50 and 3,000 warrants at \$5.40 per share all exercisable within 60 days of October 15, 2007.

Mr. Williams 6,400 options currently exercisable at \$2.50 per share plus 40,000 warrants each to purchase one share of common stock at \$2.50 all exercisable within 60 days of October 15, 2007.

Mr. Radcliffe 2,000 options exercisable at \$2.50 per share and 1,000 warrants at \$5.40 per share all exercisable within sixty (60) days of October 15, 2007.

Mr. Sturtz 8,000 options currently exercisable at \$2.50 per share plus 8,000 warrants each to purchase one share of common stock at \$2.50 and 4,000 warrants at \$5.40 per share all exercisable within 60 days of October 15, 2007.

Mr. Levine 2,000 warrants which are currently exercisable at \$5.40 per share.

Mr. Hackett 2,000 warrants which are currently exercisable at \$5.40 per share.

Mr. Peterson 6,000 warrants which are currently exercisable at \$5.40 per share.

Non-Employee Director Reimbursement

Non-employee directors are reimbursed for travel and other out-of-pocket expenses connected to Board travel.

Table of Contents**EQUITY COMPENSATION PLAN INFORMATION**

The following table sets forth additional information as of December 31, 2006, concerning shares of our common stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements, divided between plans approved by our shareholders and plans or arrangements not submitted to our shareholders for approval. The information includes the number of shares covered by, and the weighted average exercise price of, outstanding options and other rights and the number of shares remaining available for future grants excluding the shares to be issued upon exercise of outstanding options, warrants, and other rights.

	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders ⁽¹⁾	80,640	\$ 2.50	5,800
Equity compensation plans not approved by security holders ⁽²⁾	0	\$ 0.00	200,000
Total	80,640	\$ 2.50	205,800

(1) The total number of shares available under the option plan is 120,000. The options were granted in August 2004 and vest over a five year period contingent on continued employment. At December 31, 2006, 80,640 options had vested with an additional 18,780 remaining to

vest. Due to separation of employment, 14,800 options have been forfeited during the five year vesting period.

- (2) We have a stock option plan effective September, 2005. As of December 31, 2006, no options had been granted under this plan.

AMENDMENTS TO CODE OF REGULATIONS

At the Annual Meeting, the shareholders will be requested to consider and act upon a proposal to approve the change of our Code of Regulations to increase the minimum notice (the Amendment).

Description of Amendment

On March 29, 2007 our Board of Directors adopted a resolution to amend section 3 of our Code of Regulation to give written notice of each annual or special meeting, state a time, place, and the purposes thereof not less than ten (10) days before any such meeting rather than the existing notice of not less than seven (7) days, with all other requirements of section 3 to remain in effect. This change is being effected in order to comply with the listing requirements of the American Stock Exchange who waived this requirement at the time the Company's shares were listed thereon.

In October 2007 our Board of Directors adopted a resolution to further amend section 3 of our Code of Regulations to increase the maximum time for giving notice of each annual or special meeting to no more than sixty (60) days before any such meeting rather than the existing maximum period of forty-five (45) days. This change is being effected as an accommodation to our shareholders to provide as much notice as customarily possible before a meeting. In

October 2007, our Board of Directors adopted a further resolution to amend section 6 of our Code of Regulations to increase the maximum time within which the Board of Directors may fix the record date to no more than sixty (60) days preceding any lawful purpose, including the determination of the shareholders entitled to receive notice or vote at any meeting, receive dividends or distributions, and to receive or exercise rights of the Company's shares or other securities. This change is being effected to be consistent with the increase in the notice period described above.

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Required Vote

Approval of the Amendments to the Code of Regulations requires the affirmative vote of a majority the of the stock present and entitled to vote on this matter.

REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRM

We have selected Rachlin, Cohen & Holtz LLP to serve as our registered independent public accounting firm for 2007. Rachlin, Cohen & Holtz LLP served as the registered independent public accounting firm for us for 2006 and throughout the periods covered by our financial statements. Representatives of Rachlin, Cohen & Holtz LLP are not expected to attend the Annual Meeting of Shareholders in order to respond to appropriate questions from shareholders, and they will have the opportunity to make a statement.

**FEES OF THE REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRM FOR
THE YEAR ENDED DECEMBER 31, 2006**

Audit Fees

The aggregate fees billed and to be billed by Rachlin, Cohen & Holtz LLP for professional services rendered for the audit of our annual financial statements and review of financial statements included in our Form SB-2 registration statements were \$492,577 for 2006, and \$281,827 for 2005.

Pre-Approval Policy

The Audit Committee is required to pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for us by our independent auditor or other registered public accounting firm, subject to the *de minimis* exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934 that are approved by the Audit Committee prior to completion of the audit.

**RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC
ACCOUNTING FIRM**

Our Audit Committee has appointed Rachlin, Cohen & Holtz LLP, an independent registered public accounting firm, as our independent auditors for the fiscal year ending December 31, 2007, and has further directed that management submit the selection of independent auditors for ratification by the shareholders at the 2007 Annual Meeting of Shareholders. Rachlin, Cohen & Holtz LLP has audited our financial statements since the fiscal year ending December 31, 2004. The Audit Committee believes that Rachlin, Cohen & Holtz LLP's experience with us and knowledge of us is important, and would like to continue this relationship.

Rachlin, Cohen & Holtz LLP, has advised us that the firm does not have any direct or indirect financial interest in us, nor has Rachlin, Cohen & Holtz LLP, had any such interest since the inception of our Company in 1989, other than as a provider of auditing and accounting services. In making the selection of Rachlin, Cohen & Holtz LLP to continue as our independent registered public accounting firm for the year ending December 31, 2007, the Audit Committee reviewed past audit results and the non-audit services performed during fiscal year 2006 and which are proposed to be performed during fiscal year 2007. In selecting Rachlin, Cohen & Holtz LLP, the Audit Committee carefully considered Rachlin, Cohen & Holtz LLP's independence. Rachlin, Cohen & Holtz LLP confirmed to us that it is in compliance with all rules, standards and policies of the Independence Standards Board and the SEC governing auditor independence.

Neither our Code of Regulations nor other governing documents require shareholder ratification of the selection of Rachlin, Cohen & Holtz LLP as the Company's independent auditors. However, we are submitting the selection of Rachlin, Cohen & Holtz LLP to the shareholders for ratification as a matter of good corporate practice. If our shareholders fail to ratify this selection, the Audit Committee will reconsider whether or not to continue to retain Rachlin, Cohen & Holtz LLP, but may still retain them. Even if this selection is ratified, the Audit Committee, in its discretion, may direct the appointment of different independent auditors at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

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The affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the 2007 Annual Meeting will be required to ratify the selection of Rachlin, Cohen & Holtz LLP. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the shareholders and will have the same effect as negative votes. Broker non-votes are counted toward a quorum, but are not counted for any purpose in determining whether this matter has been approved.

The Board of Directors recommends that our shareholders vote FOR the ratification of the independent registered public accounting firm.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our officers, directors and greater than 10% shareholders to file reports of ownership and changes in ownership of our securities with the Securities and Exchange Commission (SEC). Copies of the reports are required by SEC regulation to be furnished to us. Based on our review of such reports, and written representations from reporting persons, we believe that all reporting persons complied with all filing requirements during the year ended December 31, 2006.

CERTAIN INFORMATION AND RELATED PARTY TRANSACTIONS

In late 2004, we concluded a bridge loan financing consisting of \$150,000 in Subordinated Notes with an attached warrant to acquire 60,000 shares of our common stock at a price of \$2.50 per share. The warrants are exercisable until October 31, 2009. \$100,000 of the Subordinated Notes and warrants were acquired by our affiliates including Mr. Tenwick, Mr. Wade, Mr. Radcliffe, and Mr. Sturtz. The Subordinated Notes were initially due on May 1, 2005. However, under the terms of the Subordinated Notes, AdCare had the ability to extend the term of the notes until November 1, 2006. Prior to the extension of the Subordinated Notes from May 1, 2005 to November 1, 2006, the holders of the Notes had the option to convert the Subordinated Notes into our common stock at a price of \$1.25 per share if the Notes were not paid in full on or before May 1, 2005. On May 1, 2005, \$100,000 of the Subordinated Notes was converted. The balance of the Subordinated Notes was repaid in September, 2005.

On January 1, 2005, Mr. Tenwick, Mr. Wade, and Mr. Williams personally guaranteed a term loan in the amount of \$1,650,000, which loan was used to acquire Assured Health Care Inc. In consideration for these guarantees, Messrs. Tenwick, Wade, and Williams each received warrants to acquire 40,000 shares of our common stock at a price of \$2.50 per share. These warrants remain exercisable until January 1, 2010. In October 2005, the loan was reduced by \$800,000 as a result of proceeds from a private placement financing of \$1,512,000 which closed in October 2005. On April 27, 2006, Homer McKnight loaned the company \$835,000 that was used to repay the balance of the loan with WesBanco for Assured Health Care. The new loan matured on May 1, 2007 and was extended to May 1, 2009. The interest is based on the prime interest rate, which was 7.75% at the time of the loan.

SHAREHOLDER PROPOSALS FOR 2008 ANNUAL MEETING

Each year our Board of Directors submits its nominations for election of directors at the annual meeting of shareholders. Other proposals may be submitted by the Board of Directors or the shareholders for inclusion in the proxy statement for action at the annual meeting. Any proposal submitted by a shareholder for inclusion in the proxy statement for the annual meeting of shareholders to be held in 2008 must be received by us (addressed to the attention of the Secretary) on or before February 7, 2008. Any shareholder proposal submitted outside the processes of Rule 14a-8 under the Securities Exchange Act of 1934 for presentation at our 2008 annual meeting will be considered untimely for purposes of Rule 14a-4 and 14a-5 if notice thereof is received by us after February 7, 2008. To be submitted at the meeting, any such proposal must be a proper subject for shareholder action under the laws of the State of Ohio.

ANNUAL REPORT

Our annual report on Form 10-KSB for the year ended December 31, 2006, containing financial statements for such year and the signed opinion of Rachlin, Cohen & Holtz LLP, registered independent public accounting firm, with respect to such financial statements, is being sent to shareholders concurrently with this proxy statement. The Annual Report is not to be regarded as proxy soliciting material, and we do not intend to ask, suggest or solicit any action from the shareholders with respect to such report.

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OTHER MATTERS

The Board of Directors knows of no other matters to be brought before the Annual Meeting. If other matters should come before the meeting, however, each of the persons named in the proxy intends to vote in accordance with his judgement on such matters.

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PROXY

ADCARE HEALTH SYSTEMS, INC.

**Annual Meeting of Shareholders
November 16, 2007**

The undersigned hereby appoints David A. Tenwick and Carol J. Groeber and each of them, with full power of substitution, as proxies for the undersigned to attend the Annual Meeting of Shareholders of AdCare Health Systems, Inc. (the Company) to be held at the corporate offices located at 5057 Troy Road, Springfield, Ohio 45502. at 10:00 a.m., EST, on November 16, 2007, thereat, and at any adjournment thereof, to vote and act with respect to all shares of the Company, which the undersigned would be entitled to vote, with all the power the undersigned would possess if present in person, as follows:

1. RESOLVED, that pursuant to the Articles of Incorporation, as amended, and the Code of Regulations of the Company, the following persons be, and they hereby are, elected Directors of the Company, to serve for following terms or until their successors are duly qualified and elected:

Clarence A. Peterson	1 Year
Jeffery Levine	3 Years
Laurence E. Sturtz	3 Years
Peter J. Hackett	3 Years

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Except, vote withheld from the following nominee(s):

2. RESOLVED, that notice provisions for annual or special meetings of the shareholders, contained in Section 3 of the Code of Regulations of the Company, shall be amended to increase the maximum and minimum notice periods to not more than sixty (60) days and not less than ten (10) days before any such annual or special meeting of the shareholders, as follows:

Section 3. Notices of Meetings. Unless waived, written notice of each annual or special meeting, stating the day, hour and place and the purpose or purposes thereof shall be given by personal delivery or by mail to each shareholder of record entitled to vote at or entitled to notice of the meeting, not more than sixty (60) days nor less than ten (10) days before any such meeting. If mailed, such notice shall be directed to the shareholder at his address as the same appears upon the records of the Corporation. Any shareholder, either before or after any meeting, may waive any notice required to be given by law under these Regulations.

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3. RESOLVED, that the maximum period within which the Board of Directors may fix a record date for any lawful purpose, contained in Section 6 of the Code of Regulations of the Company, shall be amended to increase the maximum period to no more than sixty (60) days for any lawful purpose, as follows:

Section 6. Record Date. The Board of Directors may fix a record date for any lawful purpose, including, without limitation, the determination of shareholders entitled to (i) receive notice of or to vote at any meeting, (ii) receive payment of any dividend or distribution, (iii) receive or exercise rights of purchase or of subscription for, or exchange or conversion of, shares or other securities, subject to any contract right with respect thereto, or (iv) participate in the execution of written consents, waivers or releases. Said record date shall not be a date earlier than the date on which it is fixed, and shall not be more than sixty (60) days preceding the date of such meeting, the date fixed for the payment of any dividend or distribution, or the date fixed for the receipt or the exercise of rights, as the case may be.

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4. RESOLVED, that the selection of Rachlin, Cohen & Holtz LLP to serve as the registered independent public accounting firm for the Company for 2007 is hereby ratified.

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5. To transact such other business as may properly come before the 2007 Annual Meeting of the Shareholders of the Company or any adjournment thereof.

This proxy when properly executed will be voted as specified by the shareholder. If no specifications are made, the proxy will be voted FOR proposals 1 through 5.

Please date and sign your name below as it appears on your stock certificate.

Dated: , 2007

Signature

Signature (if held jointly)