

CYANOTECH CORP
Form DEF 14A
August 24, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No. 1)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
 o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
 x Definitive Proxy Statement
 o Definitive Additional Materials
 o Soliciting Material Pursuant to §240.14a-12

Cyanotech Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
 o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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| (3) | Filing Party: |
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CYANOTECH CORPORATION

73-4460 Queen Kaahumanu Hwy., Suite 102
Kailua Kona, HI 96740
(808) 326-1353

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held Monday, September 24, 2007 at 7:00 P.M. Hawaii Standard Time

To Our Stockholders:

You are cordially invited to attend the 2007 Annual Meeting of Stockholders (the Annual Meeting) of Cyanotech Corporation, a Nevada corporation (Cyanotech or the Company) to be held on Monday, September 24, 2007 at 7:00 P.M., Hawaii Standard Time, at the Waikoloa Beach Marriot Resort & Spa, 69-275 Waikoloa Beach Drive, Waikoloa, Hawaii, or at any adjournment or postponement thereof, for the following purposes:

1. To elect six directors to serve until the next Annual Meeting or until their successors are elected and qualified;
2. To ratify the selection of KPMG LLP as the Company s independent registered public accounting firm for the fiscal year ending March 31, 2008; and
3. To transact other business as may properly come before the meeting or any adjournment thereof.

These matters are more fully described in the Proxy Statement accompanying this notice.

In addition to the formal items of business, Cyanotech will review the major developments of fiscal 2007 and answer appropriate questions that you may have about Cyanotech and its activities.

The Board of Directors has fixed the close of business on July 30, 2007 as the record date (the Record Date) for Stockholders entitled to notice of, and to vote at, the Annual Meeting and any adjournment thereof. The stock transfer books will not be closed between the Record Date and Annual Meeting. Only stockholders of record at the Record Date are entitled to notice of and to vote at the Annual Meeting; however, all stockholders are cordially invited to attend the meeting.

It is important that your shares be represented at the meeting. Please sign, date and return the enclosed proxy card in the enclosed envelope, even if you plan to attend the meeting. If you do attend the meeting, you may personally vote, which will revoke your signed proxy. You may also revoke your proxy at any time before the meeting by following the instructions in the Proxy Statement.

Thank you for your ongoing support and continued interest in Cyanotech. We look forward to seeing you at the meeting.

By Order of the Board of Directors
William R. Maris
Secretary

Kailua-Kona, Hawaii
August 24, 2007

Stockholders Should Read the Entire Proxy Statement Carefully Prior to Returning Their Proxies

**PROXY STATEMENT
FOR
ANNUAL MEETING OF STOCKHOLDERS OF CYANOTECH CORPORATION
To Be Held Monday, September 24, 2007**

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of CYANOTECH CORPORATION (the Company or Cyanotech) of proxies to be voted at the 2007 Annual Meeting of Stockholders (the Annual Meeting) which will be held at 7:00 p.m., Hawaii Standard Time, on Monday, September 24, 2007, at the Waikoloa Beach Marriot Resort & Spa, 69-275 Waikoloa Beach Drive, Waikoloa, Hawaii, or at any adjournment or postponement thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. This Proxy Statement and the proxy card are to be first mailed to stockholders on or about August 24, 2007.

The Company's principal executive offices are located at 73-4460 Queen Kaahumanu Highway, Suite 102, Kailua Kona, HI 96740.

VOTING RIGHTS AND SOLICITATION

The enclosed proxy is being solicited on behalf of the Board of Directors of Cyanotech for use at the Annual Meeting.

The close of business on July 30, 2007 is the record date for stockholders entitled to notice of and to vote at the Annual Meeting. All holders of the Company's Common Stock outstanding on the record date are entitled to vote at the Annual Meeting. Each stockholder has one vote for each share so held. At July 30, 2007, Cyanotech had 5,233,520 shares of Common Stock, \$.02 par value per share, issued and outstanding. The presence in person or by proxy of the holders of record of a majority of the voting power of the outstanding shares entitled to vote constitutes a quorum. Directors are elected by a plurality of votes cast. For approval of all other matters to be voted on: when a quorum is present a matter is approved if the number of votes cast in favor of the action exceeds the number of votes cast in opposition to the action. Abstentions are counted only for purposes of determining whether a quorum is present. On all proposals a broker who holds shares in the name of a stockholder is entitled to vote these shares even if the broker receives no instructions from the stockholder. Broker non-votes are not treated as votes cast but are counted in determining the existence of a quorum.

Shares represented by proxies in the accompanying form which are properly executed and returned to Cyanotech will be voted at the Annual Meeting in accordance with the stockholder's instructions contained therein. In the absence of contrary instructions, shares represented by such proxies will be voted: a) **FOR** the election of each of the directors as described herein under Proposal One Election of Directors ; b) **FOR** ratification of the selection of the independent registered public accounting firm as described herein under Proposal Two Ratification of Selection of Independent Registered Public Accounting Firm. Management does not know of any matters to be presented at this Annual Meeting other than those set forth in this Proxy Statement and in the Notice accompanying this Proxy Statement. If other matters should properly come before the meeting, the proxy holders will vote on such matters in accordance with their best judgment.

The entire cost of soliciting the proxies will be borne by Cyanotech. Proxies will be solicited principally through the use of the mails, but, if deemed desirable, may be solicited personally or by telephone, e-mail, facsimile or letter by officers and regular Cyanotech employees who will receive no additional compensation. Arrangements may be made with brokerage houses and other custodians, nominees and fiduciaries to send proxies and proxy material to the beneficial owners of the Company's Common Stock, and such persons may be reimbursed for their expenses.

REVOCABILITY OF PROXIES

Any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is voted. It may be revoked by filing with the Secretary of the Company at the Company's principal executive office, 73-4460 Queen Kaahumanu Hwy., Suite 102, Kailua-Kona, HI 96740, a written notice of revocation or a duly executed proxy bearing a later date, or it may be revoked by attending the meeting, notifying the Secretary of the Meeting of the revocation of the prior proxy, and voting in person. Attendance at the meeting will not, by itself, revoke a proxy.

**PROPOSAL ONE:
Election of Directors**

Board Nominees

A board of six (6) directors is to be elected at the meeting. Unless otherwise instructed, the proxy holders will vote the proxies received by them **FOR** the election of the six Board nominees named below, all of whom are presently directors of the Company. Each nominee has consented to be named a nominee in this Proxy Statement and to continue to serve as a director if elected. If any nominee becomes unable or declines to serve as a director or if additional persons are nominated at the meeting, the proxy holders intend to vote all proxies received by them in such a manner as will assure the election of as many nominees listed below as possible (or, if new nominees have been designated by the Board of Directors, in such a manner as to elect such nominees) and the specific nominees to be voted for will be determined by the proxy holders. The Company is not aware of any reason that any nominee will be unable or will decline to serve as a director. Each director elected at this Annual Meeting will serve until the next Annual Meeting or until such director's successor has been elected and qualified. Voting for the election of directors is non-cumulative.

The following table sets forth certain information regarding the members of the Board of Directors, all of whom were elected at the last annual meeting of stockholders.

Name	Principal Occupation	Director Since	Age
Gerald R. Cysewski, Ph.D.	Chairman of the Board, President and Chief Executive Officer, Cyanotech Corporation	1983	58
Michael A. Davis	Private Investor	2003	54
Gregg W. Robertson	President and Chief Executive Officer of Robertson & Company (Financial services consultancy)	2004	73
David I. Rosenthal	Chief Financial Officer, Sanz Corporation (Value added reseller of data storage solutions)	2000	52
John T. Waldron	Adjunct Professor of Marketing Lake Forest Graduate School of Management	1998	55
Paul C. Yuen, Ph.D.	Retired, formerly Dean of the College of Engineering University of Hawaii at Manoa	1993	79

Gerald R. Cysewski, Ph. D. Kailua Kona, Hawaii: Dr. Cysewski co-founded the Company in 1983 and has served as a director of the Company since that time. Until June 1996, he also served as Scientific Director. Since March 1990, Dr. Cysewski has served as President and Chief Executive Officer of the Company and in October 1990 was also appointed to the position of Chairman of the Board. From 1988 to November 1990, he served as Vice Chairman of the Company. From 1980 to 1982, Dr. Cysewski was

Group Leader of Microalgae Research and Development at Battelle Northwest, a major contract research and development firm. From 1976 to 1980, Dr. Cysewski was an assistant professor in the Department of Chemical and Nuclear Engineering at the University of California, Santa Barbara, where he received a two-year grant from the National Science Foundation to develop a culture system for blue-green algae. Dr. Cysewski received his doctorate in Chemical Engineering from the University of California at Berkeley.

Michael A. Davis Tiburon, California: Mr. Davis was appointed to the Board of Directors of the Company in March 2003 subsequent to his acquisition of \$1,250,000 of subordinated convertible debentures of the Company in September 2002. Mr. Davis is a Principal at Ebb and Flow Ventures, a private equity firm; President of Skywords Family Foundation and a Director of Canobie Films, Inc. Mr. Davis attended Harvard University and resides in Tiburon, California.

Gregg W. Robertson Honolulu, Hawaii: Mr. Robertson was appointed to the Board of Directors of the Company in August 2004. Mr. Robertson is the President and Chief Executive Officer of Robertson & Company, a privately-owned investment banking firm which was established in 1986 and is currently based in Honolulu. Prior to establishing this firm, Mr. Robertson was the President and Chief Executive Officer of Dillingham Industries, Inc., a subsidiary of Dillingham Corporation. Previously Mr. Robertson held the positions of Executive Vice President and Chief Financial Officer of Dillingham Corporation. Mr. Robertson holds a B.S. degree in Economics from Fairleigh Dickenson University, Teaneck, N.J.

David I. Rosenthal Denver, Colorado: Mr. Rosenthal was appointed to the Board of Directors of the Company in November 2000. Mr. Rosenthal is currently the Chief Financial Officer at Sanz, Inc, a public-traded company located in Englewood, Colorado that is a value added reseller for data storage solutions. From 2003 to May of 2006 he was the Executive Vice President and Chief Financial Officer for SpectraLink Corporation, a publicly-traded company located in Boulder Colorado that designs, manufactures and markets wireless phones for the workplace. Mr. Rosenthal was Executive Vice President and Chief Financial Officer of StarTek, Inc., a provider of customized outsourcing services from 2000 to 2003. Mr. Rosenthal was acting Chief Financial Officer at Celestial Seasoning, Inc. until its merger with the Hain Food Group in 2000 and the Chief Financial Officer of Hauser, Inc., a manufacturer of natural extracts products, from 1994 to 1999. Mr. Rosenthal holds a B.S. degree in Accounting from the University of California at Berkeley and a M.B.A degree from California State University, Hayward. Mr. Rosenthal is also a Certified Public Accountant.

John T. Waldron Deerfield, Illinois: Mr. Waldron was appointed to the Board of Directors of the Company in July 1998. Mr. Waldron is an Adjunct Professor of Marketing at the Lake Forest Graduate School of Management in Lake Forest, Illinois. From 1986 to 1999, Mr. Waldron was Vice President-Sales and Marketing, Senior Vice President-Sales and Marketing, and Executive Vice President for Takeda U.S.A. Inc., a bulk vitamin and fine chemical products manufacturer. Mr. Waldron was also a Director of Takeda U.S.A. from 1993 to 1999, and served as a member of its Executive Committee and Compensation Committee. Mr. Waldron holds a Master of Management degree from Northwestern University's J. L. Kellogg Graduate School of Management.

Paul C. Yuen, Ph.D. Honolulu, Hawaii: Dr. Yuen was appointed to the Board of Directors of the Company in August 1993. Prior to his retirement in September 1999, Dr. Yuen served as Dean, College of Engineering for the University of Hawaii at Manoa. From July 1992 to March 1993, Dr. Yuen was Acting President of the University of Hawaii. From 1989 to 1992, Dr. Yuen was Senior Vice President for Academic Affairs, University of Hawaii at Manoa. Dr. Yuen holds M.S. and Ph.D. degrees in Electrical Engineering from the Illinois Institute of Technology.

The Board has determined that all nominees, except Dr. Cysewski, are independent directors as defined in Nasdaq Stockmarket Rule 4200A.

Required Vote

A plurality of the shares of the Common Stock cast at a meeting at which a quorum is present, is required for the election of directors.

The Board of Directors unanimously recommends that the stockholders vote FOR all of the above named director nominees. The enclosed Proxy will be voted for this proposal unless a contrary specification is made.

BOARD MEETINGS AND COMMITTEES

Board Meetings

During fiscal year 2007 the Board met seven times. Each of our Directors attended 75 percent or more of the meetings of the Board and of Board Committees on which he served.

Director Nomination Process

Director Qualifications. The Nominating and Corporate Governance Committee has established guidelines in considering nominations to the Company's Board of Directors. These include: (a) personal characteristics, including such matters as integrity, education, diversity of background and experience, absence of potential conflicts of interest with the Company or its operations, and the availability and willingness to devote sufficient time to the duties of a director of the Company; (b) experience in corporate management, such as serving as an officer or former officer of a publicly held company; (c) experience in the Company's industry and with relevant social policy concerns; (d) experience as a board member of another company; (e) academic expertise in an area of the Company's operations; and (f) practical and mature business judgment. The criteria are not exhaustive and the Nominating and Corporate Governance Committee and the Board of Directors may consider other qualifications and attributes which the members believe are appropriate in evaluating the ability of an individual to serve as a member of the Board of Directors. The Nominating and Corporate Governance Committee's goal is to assemble a Board of Directors that brings to the Company a variety of perspectives and skills derived from high quality business and professional experience. In doing so the Committee also considers candidates with appropriate non-business backgrounds.

Identification and Evaluation of Nominees for Directors. The Board of Directors believes that, based on the Nominating and Corporate Governance Committee's knowledge of the Company's corporate governance principles and the needs and qualifications of the Board at any given time, the Nominating and Corporate Governance Committee is best equipped to select nominees that will result in a well-qualified and well-rounded board of directors. It is the general policy of the Nominating and Corporate Governance Committee not to accept unsolicited nominations from stockholders. In making its nominations, the Nominating and Corporate Governance Committee identifies nominees by first evaluating the current members of the Board willing to continue their service. Current members with qualifications and skills that are consistent with the committee's criteria for Board service are re-nominated. As to new candidates, the committee will generally poll the Board members and members of management for recommendations. The committee may also review the composition and qualification of the boards of directors of the Company's competitors, and may seek input from industry experts or analysts. The committee reviews the qualifications, experience and background of the candidates. Final candidates are interviewed by the independent directors and executive management. In making its determinations, the committee evaluates each individual in the context of the Board as whole, with the objective of assembling a group that can best represent stockholder interests through the exercise of sound judgment. After review of all pertinent data, and due deliberation by the committee, this slate of nominees is recommended to the Board of Directors and the stockholders for election. Historically, the Board of Directors has not relied on third-party search firms to identify director nominees. The committee may in the future choose to engage third-party search

firms in situations where particular qualifications are required or where existing contacts are not sufficient to identify an appropriate candidate.

Each of the nominees for election at the annual meeting is recommended by the Nominating and Corporate Governance Committee for election.

Independent Directors

The Board has determined that each of the nominees for director, other than Dr Cysewski, has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) and is independent under NASDAQ Rule 4200(A). In making its determination, the Board considered transactions and relationships between each director (and any member of his immediate family) and the Company and its subsidiaries and relationships between the directors or their affiliates and members of the Company's senior management personnel and their affiliates.Independent Directors

The Independent Directors meet in executive session without the Chief Executive Officer or anyone from management attending, at least once annually. In fiscal year 2007 there were three such sessions. Gregg W. Robertson acted as the Lead Independent Director for such meetings and was responsible for the issues discussed. Any Independent Director may request an executive session of Independent Directors to discuss any matter of concern.

Stockholder Communication with Directors

Stockholders may, at any time, communicate in writing with any particular director, or the non-management directors as a group, by sending such written communication to Cyanotech Corporation Non-Management Directors, 73-4460 Queen Kaahumanu Highway, #102, Kailua Kona, Hawaii, 96740. Copies of written communications received at such address will be directed to the relevant director or the non-management directors as a group.

Code of Conduct and Ethics

The Company has established a Code of Conduct and Ethics that applies to its officers, directors and employees. The Code of Conduct and Ethics is posted on the Company's web-site www.cyanotech.com. The Code of Conduct and Ethics contains general guidelines for conducting the business of the Company consistent with the highest standards of business ethics, and is intended to qualify as a code of ethics within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder and as a code of conduct within the meaning of the NASDAQ Stock Market listing standards.

Corporate Governance Documents

The Nominating and Governance Committee Charter and the Code of Conduct and Ethics, are available on the Company's website at www.cyanotech.com. The information contained on the website is not thereby incorporated by reference in, or considered part of, this Proxy Statement unless specifically incorporated. The Company will provide copies of any of these documents, free of charge, to any stockholder upon written request to the Chief Financial Officer, c/o Cyanotech Corporation, 73-4460 Queen Kaahumanu Highway, #102, Kailua Kona, Hawaii, 96740.

Board Committees

The Board of Directors of the Company has an Audit Committee, Nominating and Governance Committee, and a Compensation and Stock Option Committee.

The Audit Committee operates and acts under a written charter, which was revised and approved by the Cyanotech Board of Directors in June 2004. A copy of the Charter and Powers of the Audit Committee was filed as an exhibit to the 2004 Notice of Annual Meeting and Proxy Statement and is hereby incorporated by reference. This document can also be found on the Company's website at www.cyanotech.com. The Committee provides independent and objective oversight of (1) the Company's financial reporting processes, (2) the Company's audits of the financial statements, including appointment, compensation and oversight of the Company's independent registered public accounting firm, (3) the Company's internal controls, and (4) risk assessment and risk management policies set by management. The Committee also oversees and monitors the independence, performance and qualifications of the company's independent registered public accounting firm. The Audit Committee also reviews and approves related party transactions and reviews and resolves complaints from any employee regarding accounting, internal controls or auditing matters. All members of the Audit Committee are independent directors as defined in Nasdaq Stockmarket Rules 4200A and 4350(d)(2). The Board of Directors has identified David I. Rosenthal as a financial expert as defined in Rule 10A(m) of the Securities Exchange Act of 1934. The Audit Committee, which is comprised of independent directors David I. Rosenthal (chair), Gregg W. Robertson, and Paul C. Yuen, held five regularly scheduled meetings during fiscal year 2007.

The Nominating and Corporate Governance Committee operates and acts under a written charter, which was adopted and approved by the Cyanotech Board of Directors in June 2004. A copy of the Nominating and Corporate Governance Committee Charter was filed as an exhibit to the 2004 Notice of Annual Meeting and Proxy Statement and is hereby incorporated by reference. The Nominating and Corporate Governance Committee's functions include (1) reviewing the background and qualifications of potential nominees for the Cyanotech Board of Directors presented by stockholders, directors and management, (2) recommending to the Board a slate of nominees to be submitted to the stockholders for election at the next Annual Meeting of Stockholders, (3) advising the Board with respect to matters of Board composition and procedures, and (4) overseeing the annual evaluation of the Board. Among the qualifications considered in the selection of candidates are knowledge, experience, skills, expertise, diversity, personal and professional integrity, character, business judgment, time availability, dedication and absence of conflicts of interest see caption "Director Nomination Process" above. All members of the Nominating and Corporate Governance Committee are independent directors under Nasdaq Market Rule 4200A. The Nominating and Corporate Governance Committee, which is comprised of independent directors John T. Waldron (Chair), Michael A. Davis and Paul C. Yuen, held one regularly scheduled meeting during fiscal year 2007.

The Compensation and Stock Option Committee operates and acts under a written charter, which was adopted and approved by the Cyanotech Board of Directors. The Compensation and Stock Option Committee reviews and makes recommendations to the Board concerning the Company's executive compensation policy, bonus plans and incentive option plans, and approves the grants of stock options to officers, employees and consultants. At least once a year, the Compensation and Stock Option Committee meets in executive session with the other independent directors of the Board to evaluate the Chief Executive Officer's (CEO) performance. All members of the Compensation and Stock Option Committee are independent directors as defined under Nasdaq Rule 4200A. The Compensation and Stock Option Committee, which is comprised of independent directors John T. Waldron (chair) and Paul C. Yuen, held one regularly scheduled meeting during fiscal year 2007.

DIRECTOR COMPENSATION

At the 2004 Annual Meeting of Stockholders, the stockholders of the Company approved the 2004 Independent Director Stock Option and Stock Grant Plan (the 2004 Plan). Under the 2004 Plan each Independent Director receives on first election, pursuant to the 2004 Plan, a 10-year option to purchase

1,000 shares of the Company's Common Stock, and thereafter a grant of 875 shares of Common Stock each year that the Independent director is elected to the board. Such grants and options are non-transferable and non-exercisable for six months following the date of grant. On the date of the 2006 Annual Meeting of Stockholders, each Independent Director was entitled to receive under the 2004 Plan, an automatic grant of 875 shares of fully paid and non-assessable shares of Common Stock. Because of an administrative oversight, such shares were not issued until fiscal year 2008. In addition, each Independent Director receives an annual fee of \$1,000 for participation on the Board and \$1,000 per Board meeting attended in person, and is also reimbursed for out-of-pocket costs incurred in connection with attendance at such meetings. Each Independent Director receives \$150 for participation in telephonic meetings. An Independent Director who serves as a member of any Board committee receives an annual fee of \$500 and an Independent Director who serves as chairperson of a Board committee is entitled to additional compensation as follows: 1) Audit Committee Chairperson \$1,500; 2) Compensation and Stock Option Committee Chairperson \$800; and 3) Nominating and Corporate Governance Committee \$800.

PROPOSAL TWO:

Ratification of Selection of Independent Registered Public Accounting Firm

The firm of KPMG LLP has served as independent auditor or independent registered public accounting firm for the Company since 1987. The Audit Committee has selected and the Board of Directors has approved the firm to continue in this capacity for the current fiscal year ending March 31, 2008. A representative of KPMG LLP is expected to attend the annual meeting with the opportunity to make a statement and to respond to appropriate questions from stockholders present at the meeting.

Although it is not required to do so, the Company wishes to provide stockholders with the opportunity to indicate their approval of the selection of the independent registered public accounting firm and accordingly is submitting a proposal to ratify the selection of KPMG LLP. If the stockholders should fail to approve this proposal, the Board of Directors will consider the selection of another independent registered public accounting firm.

Required Vote

The proposal will be approved if a quorum is present and the number of votes cast in favor exceeds the number of votes cast against the proposal.

The Board of Directors unanimously recommends that stockholders vote FOR ratification of KPMG LLP to serve as the Company's independent registered public accounting firm for the year ending March 31, 2008.

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires the Company's directors, executive officers, and beneficial owners of more than 10% of a registered class of the Company's equity securities, (collectively Insiders) to file reports with the SEC and the National Association of Securities Dealers, Inc. disclosing direct and indirect ownership of Common Stock and other equity securities of the Company and reports of changes in such ownership. Insiders are required by SEC regulation to provide the Company with copies of all Section 16(a) forms filed with the SEC. Based solely on review of copies of Section 16(a) reports received by the Company, and written representations that no other reports were required by the SEC, the Company believes Insiders have complied with all Section 16(a) filing requirements for the fiscal year ended March 31, 2007.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of the Company's Common Stock as of July 30, 2007 by (i) each person who is known by the Company to own beneficially more than 5% of the outstanding shares of the Common Stock of the Company and Common Stock equivalents, (ii) each of the Company's executive officers named in the Summary Compensation Table appearing herein, (iii) each director and (iv) all directors and executive officers named in the Summary Compensation Table appearing herein as a group. The following table sets forth what such persons' beneficial security ownership position would be assuming the exercise of all outstanding stock options and warrants, exercisable on July 30, 2007 or within 60 days of such date. All shares shown are subject to the named person's sole voting and investment power except as noted below.

Name	Shares Beneficially Owned	Approximate Percent Owned
Gerald R. Cysewski(1)	121,527 (2)	2.3 %
Robert J. Capelli(1)	5,500 (3)	*
Michael A. Davis(1)	868,269 (4)(5)	16.6 %
Gregg W. Robertson(1)	2,375 (6)	*
William R. Maris(1)	5,000 (7)	*
David I. Rosenthal(1)	3,250 (8)	*
John T. Waldron(1)	13,488 (9)	*
Paul C. Yuen(1)	10,200	*
All directors and executive officers as a group (8 persons)	1,029,609 (10)	19.7 %

* Less than 1.0%

(1) Address is c/o Cyanotech Corporation, 73-4460 Queen Kaahumanu Hwy., Suite 102, Kailua Kona, HI 96740.

(2) Includes options for 7,875 shares of Common Stock.

(3) Includes options for 5,500 shares of Common Stock

(4) Includes 80,500 shares over which Mr. Davis holds sole voting and investment power. Also includes 787,019 shares over which Mr. Davis holds shared voting and investment power, including 31,250 shares held by Mr. Davis spouse, Janet J. Johnstone (Johnstone); 175,000 shares held by the Skywords Family Foundation, a charitable foundation of which Mr. Davis and Johnstone are the sole directors; 100,000 shares held by trusts for the benefit of Mr. Davis and Johnstone's minor children for which Mr. Davis is a co-trustee; and 480,769 shares held by the Michael Arlen Davis Charitable Lead Annuity Trust of which Mr. Davis is a co-trustee.

(5) Includes options for 750 shares of Common Stock held by a trust for the benefit of Mr. Davis, Johnstone & Mr. Davis descendants, of which Mr. Davis is a trustee.

(6) Includes options for 1,000 shares of Common Stock.

(7) Includes options for 5,000 shares of Common Stock.

(8) Includes options for 750 shares of Common Stock.

(9) Includes options for 750 shares of Common Stock.

(10) Includes options for 21,625 shares of Common Stock.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No current member of the Company's Compensation and Stock Option Committee is a current or former officer or employee of the Company or its subsidiaries and no executive officer of the Company was a member of the Compensation Committee of any corporation of which a member of the Company's Compensation and Stock Option Committee is an executive officer.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers and other key employees of Cyanotech as of March 31, 2007 are as follows:

Name	Age	Position
Gerald R. Cysewski, Ph. D	58	Chairman of the Board, President and Chief Executive Officer
William R. Maris	58	Chief Financial Officer, Vice President Finance and Administration, Secretary and Treasurer
Glenn D. Jensen	48	Vice President Operations
Robert J. Capelli	47	Vice President Sales

Dr. Cysewski co-founded Cyanotech in 1983. Since March 1990, Dr. Cysewski has served as President and Chief Executive Officer and prior to this time, served as Scientific Director. Dr. Cysewski has also served as a Director since 1983. In 1998, he was Vice Chairman of the Board and in October 1990 he was appointed Chairman of the Board. Prior to his tenure at Cyanotech, from 1980 to 1982, Dr. Cysewski was group leader of microalgae research and development at Battelle Northwest, a major contract research and development firm. From 1976 to 1980, Dr. Cysewski was an assistant professor in the Department of Chemical and Nuclear Engineering at the University of California, Santa Barbara. Dr. Cysewski received his doctorate in Chemical Engineering from the University of California at Berkeley.

Mr. Maris has served as Chief Financial Officer, Vice President Finance & Administration, Secretary and Treasurer since January 2006. From February 2003 to December 2005 he was self employed as a Certified Public Accountant. From September 1994 to January 2003 Mr. Maris was CFO, Treasurer and Secretary of Market Transport, Ltd., a logistics and transportation provider based in Portland, Oregon. Prior to this he served as CFO and Vice President, Operations of Wholesome and Hearty Foods (Garden Burger), a food products manufacturer in Portland, and CFO and Treasurer of Crown Pacific, Ltd., a forest resources and manufacturing concern in Portland. Earlier in his career, Maris was a division treasurer and financial manager for AMFAC, Inc. of Honolulu, Hawaii. He began his career at Touche Ross and Company becoming senior auditor and audit supervisor. He holds a B.A. Degree from the University of Oregon.

Mr. Jensen has served as Vice President Operations since May 1993. He had been Production Manager since 1991. Mr. Jensen joined Cyanotech in 1984 as Process Manager. Prior to joining the Company, Mr. Jensen worked as a plant engineer at Cal-Alga, a spirulina production facility, near Fresno, California. Mr. Jensen holds a B.S. degree in Health Science from California State University, Fresno.

Mr. Capelli, has served as Vice President Sales since March 2002. He joined the Company in January 2002 as Director of Sales. Prior to joining Cyanotech, Mr. Capelli was Senior Sales Manager for Forecite-The Source, a division of Tree of Life, Inc. Mr. Capelli holds a B.A. degree from Rutgers University.

COMPENSATION AND STOCK OPTION COMMITTEE REPORT

The Compensation and Stock Option Committee reviewed and discussed with senior management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K that follows. Based on that review and discussion, the Committee recommended and the Board of Directors concurred, that the Compensation Discussion and Analysis be included in our Form 10-K and this proxy statement.

Compensation and Stock Option Committee of the Board of Directors.

John T. Waldron, Chairman
Paul C. Yuen

Compensation Discussion and Analysis

Who is responsible for determining appropriate executive compensation?

The Compensation Committee has the responsibility for recommending the total compensation program for the Company and its subsidiaries, subject to the approval of the Board. This includes determining the compensation for the Cyanotech Corporation Named Executive Officers (NEOs) (the individuals named in the Summary Compensation Table herein: (1) Gerald R. Cysewski, PhD, Chairman, President and Chief Executive Officer of the Company; (2) William R. Maris, Chief Financial Officer, Vice President-Finance and Administration, Secretary and Treasurer of the Company; and (3) Robert J. Capelli, Vice President-Sales of the Company;

What are the objectives of the Company's compensation programs?

The goals of the compensation program are to align compensation with business objectives and performance, and to enable the Company to attract, motivate and retain executives of outstanding ability, potential and drive commensurate with the size and development requirements of the Company. Key components include:

- The Company pays competitively with comparable small companies with which the Company competes for talent. To ensure that pay is competitive, the Company compares its pay practices with these companies and sets its pay parameters based in part on this review.
- The Company maintains annual incentive opportunities sufficient to provide motivation to achieve specific operating goals and to generate rewards that bring total compensation to competitive levels.
- The Company provides stock options for executive officers to ensure that they are motivated over the long term to respond to the Company's business challenges.

The Compensation Committee endeavors to balance Company needs and values with the employees' needs and believes that it is important that the Committee maintain this relationship.

What are the compensation programs designed to reward?

The Company's compensation programs are designed to recognize and reward Company annual and long-term performance and individual performance that enhance shareholder value. To that end:

- *Company Performance.* The Compensation Committee considers each executive's overall contribution to the Company's long-term and short-term results and projections in relation to the Company goal of achieving sustainable profitability from sales of its products.
- *Individual Performance.* The Compensation Committee has not established specific individual goals. The Company has a small executive team of talented individuals with clear divisions of

responsibility for achieving the Company's goals. The Compensation Committee evaluates the Chief Executive Officer as a committee, or in conjunction with the other independent members of the Board of Directors (as determined by the full Board). That evaluation entails a review of the Chief Executive Officer's performance and progress towards achieving sustainable profitability through improved long-term and short-term results attributable to the Chief Executive Officer. The Compensation Committee or the full Board (excluding the Chief Executive Officer) acting with the Committee or upon its recommendations also considers relative shareholder return over the same period and chief executive compensation for similar-sized companies with similar results within the relevant geographic and industry area. For other NEOs, the Compensation Committee considers a performance assessment and base salary recommendation from the Chief Executive Officer. The performance evaluations of these executives are based on an overall assessment of each executive's contribution to the Company's long-term and short-term results and projections in relation to the Company goal of achieving sustainable profitability from sales of its products. The compensation for the Vice President-Sales includes a direct commission-based component.

What are the elements of executive compensation?

The elements of the Company's executive compensation include:

- Base salary and bonus, if awarded.
- Incentive stock option grants.

How is base salary determined?

The base salaries of the executive officers are determined initially on the basis of one or more salary surveys conducted by third parties as well as surveys of biopharmaceutical companies both nationally and more specifically in the Western United States obtained from public information such as filings with the Securities and Exchange Commission. Based on such surveys, the executive officers' salaries are set within the ranges of the surveys targeted at the median; the exact level is determined after the Committee considers the experience and capability of the executive officer, the level of responsibility and the needs of the Company.

What were the base salary increases for 2007?

None, because the Company incurred a loss in operations.

Are bonuses paid to executive officers?

The Committee believes that, as a general rule, annual compensation in excess of base salaries should be dependent on the employee's performance and the Company's performance, and should be awarded based on recommendations of the Committee, and in the discretion of the Board. Accordingly, at the beginning of a fiscal year, the Committee may adopt an incentive plan for executive officers and other key management personnel under which executive officers and other key management personnel may earn bonuses, provided the Company achieves or exceeds the pre-tax net income goal established for the year.

The net income goal is established in part on the basis of an annual operating plan developed by management and approved by the Board of Directors. The annual operating plan is designed to maximize profitability, within the constraints of economic and competitive conditions, some of which are outside the control of the Company, and is developed on the basis of: (i) the Company's performance in the prior year; (ii) estimates of sales revenue for the plan year based upon recent market conditions and trends and other factors which, based on historical experience, are expected to affect the level of sales that can be achieved; (iii) historical operating cost and cost savings that management believes can be achieved; and (iv) competitive conditions faced by the Company. Taking all of these factors into account, as part of the

operating plan, bonus awards are determined and fixed at what is believed to be a realistic level so as to make the incentives meaningful to executives and to avoid penalizing executives and other key management personnel for conditions outside of their control.

In certain instances, bonuses may be awarded not only on the basis of the Company's overall profitability, but also on the achievement by an executive of specific objectives within his or her area of responsibility. For example, a bonus may be awarded for an executive's efforts in achieving greater than anticipated cost savings, or establishing new or expanded markets for the Company's products. Typically, the maximum bonus that may be awarded for achievement of specific objectives is determined at the beginning of the year to provide the requisite incentive for such performance.

As a result of such performance-based criteria, executive compensation, and the proportion of each executive's total cash compensation that is represented by incentive or bonus income, may increase in those years in which the Company achieves the anticipated level of growth and profitability. On the other hand, in years in which the Company experiences less than anticipated growth, bonuses and total executive compensation should be lower or not awarded. No bonuses were paid during or for fiscal years 2006 or 2007.

What is the Company's incentive stock option program?

The 2005 Stock Option Plan ("Plan") rewards select executives and key employees as an incentive for them to join or remain in the service of the Company. The Stock Option and Compensation Committee administers the Plan

How does the Company award stock option grants?

The Committee generally intends to make stock option grants on an annual basis. Each grant is designed to align the interests of the executive officers with those of the stockholders and provide each individual with a significant incentive to manage the Company from the perspective of an owner with an equity stake in the business. Each grant generally allows the executive officer to acquire shares of the Company's Common Stock at a fixed price per share (usually the market price on the date of grant) over a specified period of time (up to 10 years), thus providing a return to the executive officer only if he or she remains in the employ of the Company and the market price of the shares appreciate over the option term. The size of the option grant to each executive officer generally is set at a level that is intended to create a meaningful opportunity for stock ownership based upon the individual's current position with the Company, but also taken into account are the size of comparable awards made to individuals in similar positions in the industry as reflected in external surveys, the individual's potential for future responsibility and promotion over the option term, the individual's personal performance in recent periods and the number of options held by the individual at the time of grant. Generally, as an executive officer's level of responsibility increases, a greater portion of his or her total compensation will be dependent upon Company performance and stock price appreciation rather than base salary. The relative weight given to these factors varies with each individual, in the sole discretion of the Committee.

What perquisites and other personal benefits do executive officers have?

None.

Do executive officers have change-in-control agreements?

No, however provisions are contained in the 2005 Stock Option Plan concerning acceleration of stock options when a Corporate transaction, as defined in such Plan occurs, unless the option is assumed or replaced by the successor corporation with a comparable option or cash incentive program.

How was the Chief Executive Officer's compensation determined last fiscal year?

The compensation payable to Dr. Cysewski, the Company's Chief Executive Officer in fiscal 2007, was determined by the Committee. Dr. Cysewski's base salary was set at a level which the Board felt would be competitive with the base salary levels in effect for chief executive officers at similarly-sized companies within the industry. Based on Dr. Cysewski's performance and on the compensation policy summarized in this report, the Compensation Committee decided that Dr. Cysewski's salary would remain at its 2006 level of \$130,000.

The material in the heading "Compensation Discussion and Analysis" and the Report of the Audit Committee, and the accompanying Stockholder Return Performance Graph are not soliciting material, and are not deemed filed with the SEC or subject to the SEC's proxy rules or to the liabilities of Section 18 of the Exchange Act, and are not to be incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in such filing.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

The following table sets forth the compensation paid or accrued by the Company to the Chief Executive Officer and all executive officers of the Company who earned more than \$100,000 for services rendered in all capacities to the Company (hereinafter referred to as the "named executive officers") for the fiscal years ended March 31, 2007, 2006, and 2005.

SUMMARY COMPENSATION TABLE

Name And Principal Position	ANNUAL COMPENSATION			Option Awards	Total
	Fiscal Year	Salary	Bonus	(1)	
Gerald R. Cysewski, Chairman of the Board, President and Chief Executive Officer	2007	\$ 130,000			\$ 130,000
	2006	\$ 130,048			\$ 130,048
	2005	\$ 121,731	\$ 20,000		\$ 141,731
William R. Maris Chief Financial Officer and Vice President of Finance and Administration	2007	\$ 104,616			\$ 104,616
	2006	\$ 23,077	(2)		\$ 23,077
	2005				
Robert J. Capelli Vice President of Sales	2007	\$ 101,738			\$ 101,738
	2006	\$ 107,462			\$ 107,462
	2005	\$ 98,965	\$ 5,000		\$ 103,965

(1) Expense recognized in the Company's financial statements. There were no stock option awards during fiscal 2007, which is the fiscal year the Company adopted SFAS No. 123R, which requires compensation expense to be recorded in the Company's financial statements.

(2) Mr. Maris joined the Company in January 2006.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about our common stock that may be issued upon the exercise of options and rights under all of our existing equity compensation plans as of March 31, 2007, including the 2005 Stock Option Plan and 2004 Non-Employee Director Stock Option and Stock Grant Plan. The 2005 Stock Plan was approved by the shareholders on August 22, 2005, replacing the Company's terminated 1995 Stock Plan.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options and Rights (a)(#)	Weighted Average Exercise Price of Outstanding Options (b)(\$)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in Column (a)(c)(#)
Equity Compensation Plans Approved by Stockholders	83,482	\$ 3.86	264,500
Equity Compensation Plans Not Approved by Stockholders	N/A	N/A	N/A
Total	83,482	\$ 3.86	264,500

OPTION GRANTS IN LAST FISCAL YEAR

The Company granted no stock options under the 2004 Independent Director Stock Option and Restricted Stock Grant or the 2005 Stock Option Plan for the fiscal year ended March 31, 2007.

FISCAL YEAR-END OPTION VALUES

The following table provides information with respect to the named executive officers concerning the number and value of unexercised options held at year end. No SARs have been granted under the Company's 2005 Stock Plan.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Shares of Common Stock Underlying Unexercised Options at FY-End (#)		Value of Unexercised In-The-Money Options at FY-End (\$)(1)	
			Exercisable(4)	Unexercisable	Exercisable	Unexercisable
Gerald R. Cysewski(2)	0	\$ 0	7,875 (2)		\$	\$
Robert J. Capelli(2)	0	\$ 0	5,500 (2)		\$	\$
William R. Maris(3)	0	\$ 0	5,000 (3)		\$	\$

(1) Refers to the Market value of shares covered by in-the-money options on March 31, 2007 which was \$1.64, less the option exercise price. Options are not in-the-money if the market value of the shares covered thereby is less than the option exercise price, which was so at the fiscal year ended March 31, 2007.

(2) Options which remain exercisable granted under 1995 Stock Option Plan.

(3) Options which are exercisable granted under 2005 Stock Option Plan. The options were granted under the Company's 2005 Stock Plan on January 2, 2006, and were exercisable in four equal and cumulative annual installments over the optionee's period of service with the Company, beginning one year after the grant date. The option has a term of five years.

(4) As reported in the Company's 10-K filed June 28, 2006, on March 23, 2006, in response to SFAS No. 123(R), the Compensation and Stock Option Committee of the Company's Board of Directors approved accelerating the vesting of all outstanding unvested employee incentive stock options under the provisions of APB Opinion No. 25, and related interpretations. Options held by non-employees and directors were not included in the vesting acceleration since all such options were already fully vested. The decision to accelerate vesting of all outstanding unvested employee incentive stock options was made to avoid recognizing, pursuant to the Company's April 1, 2006 adoption of SFAS No. 123(R), the non-cash compensation cost related to unvested Employee Incentive Stock