

CYANOTECH CORP
Form DEF 14A
July 02, 2004

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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.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- 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)

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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, August 16, 2004 at 7:00 P.M. Hawaii Standard Time

To Our Stockholders:

You are cordially invited to attend the 2004 Annual Meeting of Stockholders (the "Annual Meeting") of Cyanotech Corporation, a Nevada corporation ("Cyanotech" or the "Company") to be held on Monday, August 16, 2004 at 7:00 P.M., Hawaii Standard Time, at the Ala Moana Hotel, 410 Atkinson Drive, Honolulu, Hawaii, 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 consider and vote on a proposal to amend the Company's Articles of Incorporation to increase the number of authorized shares of Common Stock (par value \$0.005) from 25,000,000 to 30,000,000;
3. To consider and vote on a proposal to approve an Independent Director Stock Option and Stock Grant Plan (the "2004 Plan"), reserving a total of 300,000 authorized shares of Common Stock of the Company for issuance of options and grants under the 2004 Plan;
4. To ratify the selection of KPMG LLP, an independent Registered Accounting Firm, as the Company's independent auditors for the fiscal year ending March 31, 2005; and
5. 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 and accomplishments of fiscal 2004 and answer appropriate questions that you may have about Cyanotech and its activities.

The Board of Directors has fixed the close of business on June 18, 2004 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
Jeffrey H. Sakamoto
Secretary

Kailua-Kona, Hawaii
July 2, 2004

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, August 16, 2004**

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 2004 Annual Meeting of Stockholders which will be held at 7:00 p.m., Hawaii Standard Time, on Monday, August 16, 2004 at the Ala Moana Hotel, 410 Atkinson Drive, Honolulu, 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 were first mailed to stockholders on or about July 2, 2004.

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 June 18, 2004 was 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 June 18, 2004, Cyanotech had 20,743,990 shares of Common Stock, \$.005 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. A majority of the voting power at a meeting, at which a quorum is present, is required for approval of all other matters to be voted on. Abstentions are counted only for purposes of determining whether a quorum is present. On proposals 1 and 4, 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. On proposals 2 and 3, the broker cannot vote such shares (broker "Non-Votes") unless authorized by the stockholder. Broker Non-Votes are not treated as votes 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 stockholders' 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** the proposal to amend the Company's Articles of Incorporation to increase the number of authorized shares of Common Stock (par value \$0.005) from 25,000,000 to 30,000,000, as described herein under "Proposal Two Increase in Authorized Shares of Common Stock"; c) **FOR** the proposal to approve the 2004 Independent Director Stock Option and Stock Grant Plan, reserving a total of 300,000 authorized shares of Common Stock of the Company for issuance of options and grants under the Plan, as described herein under "Proposal Three Proposal to Approve the 2004 Independent Director Stock Option and Stock Grant Plan"; and d) **FOR** ratification of the selection of the independent auditors as described herein under "Proposal Four Ratification of Selection of Independent Auditors." 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, five 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 nominees for election to the Board of Directors, all of whom were elected at the last annual meeting except Mr. Robertson, a newly nominated director.

| Name | Principal Occupation | Director Since | Age |
|---------------------------|--|-----------------------|------------|
| Gerald R. Cysewski, Ph.D. | Chairman of the Board, President and Chief Executive Officer, Cyanotech Corporation | 1983 | 55 |
| Michael A. Davis | Private Investor | 2003 | 51 |
| Gregg W. Robertson | President and Chief Executive Officer of Robertson & Company (Financial services consultancy) | N/A | 70 |
| David I. Rosenthal | Vice President of Finance & Administration, Chief Financial Officer, SpectraLink Corporation (Manufacturer of wireless communication products) | 2000 | 49 |
| John T. Waldron | Adjunct Professor of Marketing Lake Forest Graduate School of Management | 1998 | 52 |
| Paul C. Yuen, Ph.D. | Retired, formerly Dean of the College of Engineering University of Hawaii at Manoa | 1993 | 76 |

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

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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 San Francisco, 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 Athena Root, Inc. and Canobie Films, Inc. Mr. Davis attended Harvard University and presently resides in San Francisco, California.

Gregg W. Robertson Honolulu, Hawaii: Mr. Robertson is a new nominee. 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 Boulder, Colorado: Mr. Rosenthal was appointed to the Board of Directors of the Company in November 2000. Mr. Rosenthal is currently the Vice President of Finance & Administration 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 is currently 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 has served as a director of the Company since 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 majority of the shares of the Common Stock cast at a meeting at which a quorum is present, is required for approval of the proposal.

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 the proposal unless a contrary specification is made.

BOARD MEETINGS AND COMMITTEES

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 they believe are appropriate in evaluating the ability of an individual to serve as a member of the Board of Directors. The Nominating/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/Corporate Governance Committee is best equipped to select nominees that will result in a well-qualified and well-rounded board of directors. Accordingly, it is the policy of the Nominating/Corporate Governance Committee not to accept unsolicited nominations from stockholders. In making its nominations, the Nominating/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 and deliberation of all data, the committee makes its recommendation to the Board of Directors. 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 are recommended by the Nominating and Corporate Governance Committee for election.

Director Independence

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.

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

The Company has established a Code of Conduct that applies to its officers, directors and employees, a copy of this Code of Conduct is attached as Exhibit E hereto. The Code of Conduct 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 Company's corporate governance documents, including the Corporate Governance Guidelines, 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 Company's Chief Financial Officer, c/o Cyanotech Corporation, 73-4460 Queen Kaahumanu Highway, #102, Kailua Kona, Hawaii, 96740.

The Board of Directors of the Company held ten regular meetings in fiscal 2004. No incumbent director attended less than 75% of the combined meetings of the Board of Directors and of the committees, if any, upon which such director served.

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 this charter is attached as Exhibit A hereto. The Committee provides independent and objective oversight of the Company's (1) financial reporting processes, (2) audits of the financial statements, including appointment, compensation and oversight of the external auditors, (3) internal controls, and (4) risk assessment and risk management policies set by management. 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 three members of the Audit Committee are "independent" directors as defined in Nasdaq Stockmarket Rule 4200A. After the 2004 Annual Meeting of Stockholders, all members of this committee will also meet the requirements of independence for audit committee members of Nasdaq

Stockmarket Rule 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), Michael A. Davis and Paul C. Yuen, held four regularly scheduled meetings during fiscal year 2004.

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 this charter is attached as Exhibit B hereto. 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 Michael A. Davis (chair), John T. Waldron and Paul C. Yuen, held one regularly scheduled meeting during fiscal year 2004.

The Compensation and Stock Option Committee operates and acts under a written charter, which was adopted and approved by the Cyanotech Board of Directors, a copy of which is attached as Exhibit C hereto. 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 2004.

DIRECTOR REMUNERATION

During fiscal 2004 (the year ended March 31, 2004), each independent director received \$500 per Board meeting attended in person and was reimbursed for all out-of-pocket costs incurred in connection with attendance at such meetings. The Board held ten meetings during fiscal 2004. In addition, each independent director was entitled at first election, pursuant to the Company's 1994 Non-Employee Directors Stock Option and Stock Grant Plan (the "Non-Employee Directors Plan"), to receive a 10-year option to purchase 3,000 shares of the Company's Common Stock, and thereafter a grant of 2,000 shares of the Company's Common Stock each year that are non-transferable for six months following the date of such grant. On the date of the 2003 Annual Meeting of Stockholders, David I. Rosenthal, John T. Waldron and Paul C. Yuen, each received grants of 2,000 shares of Cyanotech Common Stock. As per the terms of the Non-Employee Directors Plan, Michael I. Davis received a 10-year option to purchase 3,000 shares of the Company's Common Stock.

In June 2004, the Board of Directors approved a revised compensation plan aimed at bringing the compensation for independent directors closer to parity with the levels currently in place for other Companies approximating Cyanotech Corporation's size, level of revenue and profitability. This new plan will take effect on August 16, 2004. Under this new compensation plan, each Independent Director receives an annual fee of \$1,000 for participation on the Board. Each Independent Director shall receive \$1,000 per Board meeting attended in person, and is reimbursed for all out-of-pocket costs

incurred in connection with attendance at such meetings. Each Independent Director shall receive \$150 for participation in telephonic meetings. An Independent Director who serves as a member of any Board committee will receive an annual fee of \$500. In addition, 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. In addition to cash compensation, each Independent Director is entitled at first election, pursuant to the Company's 2004 Independent Director Stock Option and Stock Grant Plan (the "2004 Plan", see Proposal 3 for a detailed description of the 2004 Plan), to receive a 10-year option to purchase 4,000 shares of the Company's Common Stock, and thereafter a grant of 3,500 shares of Common Stock each year that are non-transferable for six months following the date of such grant. If Proposal 3 is approved by the stockholders, on the date of the 2004 Annual Meeting of Stockholders, each Independent Director continuing as a director will receive, under the 2004 Independent Directors Plan, an automatic grant of 3,500 shares of fully paid and non-assessable shares of Common Stock except Mr. Robertson, a newly-appointed Independent Director who will receive a 10-year option to purchase 4,000 shares of the Company's Common Stock.

**PROPOSAL TWO:
Increase in Authorized Shares of Common Stock**

The Board of Directors recommends the adoption by the stockholders of an amendment to the Articles of Incorporation of Cyanotech which will increase the authorized Common Stock from 25,000,000 shares to 30,000,000. As of June 18, 2004, 20,743,990 shares of Common Stock are issued and outstanding and 897,456 shares are reserved for future issuance under employee and non-employee benefit plans and outstanding warrants.

The Board of Directors believes that the proposed increase in the authorized shares of Common Stock is desirable to enhance Cyanotech's flexibility in connection with possible future actions such as stock dividends or splits, acquisitions, adoption of stock option or similar employee benefit plans, the funding of capital or operating expenditures or other corporate purposes. The future issuance on any newly authorized stock, if any, would be authorized by resolution of the Board of Directors without need for further approval of the stockholders. At this time, no specific use for the additional shares is contemplated.

The additional shares of Common Stock to be authorized have the same voting rights as discussed under the caption "VOTING RIGHTS AND SOLICITATION." The Company's Common Stock does not have preemptive rights. As provided in the Board of Directors resolution, the first paragraph of Article V of the Articles of Incorporation of Cyanotech will be amended in its entirety to read as follows:

"The Corporation shall have the authority to issue thirty-five million (35,000,000) shares of stock. Of these shares, thirty million (30,000,000) shall be common stock, par value \$0.005, having a total par value of \$150,000, and five million (5,000,000) shares shall be specified as preferred stock, par value \$0.01, total par value of \$50,000. Each common share issued pursuant to this paragraph shall be fully paid and nonassessable."

Adoption of the foregoing amendment requires the affirmative vote of a majority of the voting power of the Company's Common Stock at a meeting at which a quorum is present. If adopted, the proposed amendment will become effective upon the filing of a Certificate of Amendment as required by Nevada law.

The Board of Directors unanimously recommends that you vote FOR this proposal.

PROPOSAL THREE:
**Proposal to Approve the 2004 Independent Director
Stock Option and Stock Grant Plan**

On June 17, 2004, the Board of Directors of the Company adopted, subject to stockholder approval, the 2004 Independent Director Stock Option and Stock Grant Plan (the "2004 Plan"). The 2004 Plan was adopted in order to retain and attract qualified persons to serve on the Board of Directors as well as to further align the interests of the independent directors with other stockholders through increased Company stock ownership. The 2004 Plan provides for the issuance of options to purchase or the outright grant of, an aggregate of 300,000 shares of the Company's Common Stock to independent directors of the Company. After election at this meeting, five independent directors will be eligible to receive grants of options or shares of Common Stock under the 2004 Plan. On the date of such election the 2004 Plan will be effective upon its approval by the stockholders and will terminate following the Annual Meeting of Stockholders is 2014, but no option granted prior to such date is adversely affected by such termination. On approval of the 2004 Plan, the 1994 Non-Employee Director Stock Option and Stock Grant Plan (the "1994 Plan") will terminate, except for outstanding options issued thereunder. At the date of this Proxy Statement there are outstanding under the 1994 Plan, options to purchase 9,000 shares of Common Stock at a weighted average price of \$1.06 held by three Non-Employee Directors (see the section entitled "Security Ownership of Certain Beneficial Owners and Management" hereunder). The 2004 Plan is substantially similar to the 1994 Plan (see Exhibit D hereto) except that stock options to be granted are increased from 3,000 to 4,000 and the stock grant are increased from 2,000 to 3,500 shares.

If the 2004 Plan is approved at the 2004 Annual Meeting of Stockholders, a grant of 3,500 shares of Common Stock will automatically be granted at the Annual Meeting of the Board of Directors to each incumbent director who is considered "Independent" per Nasdaq Rule 4200A guidelines. Newly nominated Independent directors will automatically be granted a 10-year stock option to purchase 4,000 shares of Common Stock. Such options become exercisable six months after the date of grant (i.e., the date of the 2004 Annual Meeting of the Board of Directors). As of the date of the Annual Meeting of Stockholders in each year after 2004 that the 2004 Plan is in effect, each Independent Director then elected or continuing in office who had not previously received such options of Common Stock will automatically receive such grant of 4,000 options, and each other Independent Director will be automatically granted without payment, 3,500 shares of fully paid and non-assessable shares of Common Stock that are non-transferable for six months following the date of such grant. Accordingly as of the date of the 2004 Annual Meeting of Stockholders, Messrs. Davis, Rosenthal, Waldron and Yuen, will each receive a grant of 3,500 shares of Common Stock and Mr. Robertson will receive a 10-year option to purchase 4,000 shares of Common Stock.

The exercise price of each option will be the "fair market value" thereof, defined for the current trading market as the last reported sale price ("Closing Price") of the Common Stock on the Nasdaq Small-Cap Market on the date of the grant. On June 18, 2004, the Closing Price of the Company's Common Stock on the Nasdaq Small-Cap Market was \$1.28. Payment of the exercise price may be made in whole or in part with other Shares owned by the participant credited at fair market value.

Options granted under, and the number of shares subject to, the 2004 Plan will be subject to adjustment upon a recapitalization, stock split, stock dividend or other similar event affecting the Common Stock. Options will not be transferable other than by will or pursuant to the laws of descent or a qualified domestic relations order, and will be exercisable during the lifetime of an option holder only by such holder or a guardian or legal representative. On Termination of Directorship, as defined in the 2004 Plan, for reasons other than death or disability, unexercised and vested Stock Options expire three months after the date of Termination of Directorship or on the Option expiration date, whichever is earlier; and if for death or disability, one year after Termination of Directorship or Option expiration date, whichever is earlier.

A change in Independent Director's status after a grant of Shares to him or her does not affect his or her right to receive or retain such Shares.

The 2004 Plan may be amended by the Board of Directors, provided that stockholders' approval will be necessary for any change that would materially increase the benefits accruing to Participants under the 2004 Plan, change the aggregate number of shares issuable thereunder, change the method for calculation of the option price or change the class of persons eligible to receive options or grants.

The 2004 Plan will be administered by the Company's Chief Executive Officer and Chief Financial Officer ("Administrators"). The Administrators have authority to adopt rules as they may deem appropriate to carry out the purposes of the 2004 Plan, have authority to interpret and construe the provisions of the 2004 Plan and any agreements and notices under the 2004 Plan and to make determinations pursuant to any 2004 Plan Provision. Each interpretation, determination or order or action made or taken by the Administrators pursuant to the 2004 Plan is final and binding on all persons. The Administrators are not liable for any action or determination made in good faith, and are entitled to indemnification and reimbursement in the manner provided in the Company Articles of Incorporation and By-Laws as such documents may be amended from time to time.

Options granted pursuant to the 2004 Plan will be "non-qualified" stock options and are not intended to qualify as incentive stock options under Section 422 of the Internal Revenue Service Code. The optionee will realize no income at the time he or she is granted a non-qualified stock option. Ordinary income will be realized by the optionee when the non-qualified stock option is exercised. The amount of such income will be equal to the excess of the fair market value on the exercise date of the shares of Common Stock issued over the exercise price of such shares, and the Company's deduction for Federal income tax purposes will correspond to the amount of income realized by the optionee upon exercise. The tax basis of the stock acquired upon the exercise of the option will be equal to the sum of (i) the exercise price of such option; and (ii) the amount included in income with respect to the exercise of such option. Any gain or loss on the subsequent sale of the stock will be either a long-term or short-term capital gain or loss, depending on the optionee's holding period for the Common Stock disposed of by the optionee.

A copy of the 2004 Plan is attached to this Proxy Statement as Exhibit D, and the foregoing discussion is qualified in its entirety by reference to Exhibit D.

Required Vote

A majority of the shares of the Common Stock cast at a meeting at which a quorum is present, is required for approval of the proposal.

The Board of Directors unanimously recommends a vote FOR approval of the 2004 Independent Director Stock Option and Stock Grant Plan.

**PROPOSAL FOUR:
Ratification of Selection of Independent Auditor**

The firm of KPMG LLP, an independent Registered Public Accounting Firm, has served as independent auditor for the Company since 1987. The Board of Directors has selected the firm to continue in this capacity for the current fiscal year ending March 31, 2005. 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 auditors 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 auditing firm.

Required Vote

A majority of the shares of the Common Stock cast at a meeting at which a quorum is present, is required for approval of the proposal.

The Board of Directors unanimously recommends that stockholders vote FOR ratification of KPMG LLP to serve as the Company's independent auditors for the year ending March 31, 2005.

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, 2004.

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 June 18, 2004 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 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 the date hereof or within 60 days of June 18, 2004. All shares shown are subject to the named person's sole voting and investment power.

| Name | Shares Beneficially Owned | Approximate Percent Owned |
|---|---------------------------|---------------------------|
| Gerald R. Cysewski(1) | 482,733(2) | 2.3 |
| Michael A. Davis(1) | 3,466,076(3)(4) | 16.7 |
| David I. Rosenthal(1) | 6,000(5) | * |
| John T. Waldron(1) | 56,952(6) | * |
| Paul C. Yuen(1) | 39,800 | * |
| All directors and executive officers as a group (8 persons) | 4,131,625(7) | 20.0 |

*
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 28,125 shares of Common Stock.

(3) Includes 315,000 shares over which Mr. Davis holds sole voting and investment power. Also includes 3,148,076 shares over which Mr. Davis holds shared voting and investment power. Such

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3,148,076 shares include: 125,000 shares held by Mr. Davis' spouse, Janet J. Johnstone ("Johnstone"); 700,000 shares held by the Skywords Family Foundation, a charitable foundation of which Mr. Davis and Johnstone are the sole directors; 400,000 shares held by trusts for the benefit of Mr. Davis' and Johnstone's minor children for which Mr. Davis is a co-trustee; and 1,923,076 shares held by the Michael Arlen Davis Charitable Lead Annuity Trust for which Mr. Davis is a co-trustee.

- (4) Includes options for 3,000 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.
- (5) Includes options for 3,000 shares of Common Stock.
- (6) Includes options for 3,000 shares of Common Stock
- (7) Includes options for 80,625 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 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, 2004, 2003, and 2002. In February 2003, Ronald P. Scott resigned from his position as Executive Vice President Finance & Administration, effective March 7, 2003.

SUMMARY COMPENSATION TABLE

| Name And Principal Position | Fiscal Year | Annual Compensation | | Long-Term Compensation Awards |
|--|----------------|---------------------|-------|---|
| | | Salary | Bonus | Shares of Common Stock Underlying Options(#) |
| Gerald R. Cysewski, Chairman of the Board, President and Chief Executive Officer | 2004 | \$ 110,000 | \$ | 9,000 |
| | 2003 | 110,000 | | 12,500 |
| | 2002 | 110,000 | | 12,500 |
| Ronald P. Scott, Executive Vice President-Finance & Administration, Chief Financial Officer | 2004 | \$ | \$ | |
| | 2003 | 103,846 | | 12,500 |
| | 2002 | 100,000 | | 12,500 |

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, 2004, including the 1995 Stock Option Plan and 1994 Non-Employee Director Stock Option and Stock Grant 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 | 655,696 | \$ 1.06 | 167,456 |
| Equity Compensation Plans Not Approved by Stockholders | NA | NA | 300,000 |
| Total | 655,696 | \$ 1.06 | 467,456 |

OPTION GRANTS IN LAST FISCAL YEAR

The following table contains information concerning the grant of stock options made under the 1995 Plan for the 2004 fiscal year to the named executive officers. No stock appreciation rights ("SARs") have been granted under the 1995 Plan.

| Name | Shares Underlying Options Granted(1) | % of Total Options Granted to Employees in Fiscal Year | Exercise Price Per Share | Expiration Date | Potential Realized Value at Assumed Annual Rates of Stock Price Appreciation For Option Term | |
|-----------------------|--------------------------------------|--|--------------------------|-----------------|--|----------|
| | | | | | 5% | 10% |
| Gerald R. Cysewski(1) | 9,000 | 5.0 | \$ 0.50 | 08/22/08 | \$ 1,243 | \$ 2,747 |

- (1) The options were granted under the 1995 Plan on August 22, 2003, and are 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 (5) years.

**AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION VALUES**

The following table provides information with respect to the named executive officers concerning the exercise of options during the 2004 fiscal year and the number and value of unexercised options held at year end. No SARs have been granted under the 1995 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 | Unexercisable | Exercisable | Unexercisable |
| Gerald R. Cysewski | 0 | \$ 0 | 53,125 | 30,875 | \$ 10,775 | \$ 14,465 |

(1) Market value of shares covered by in-the-money options on March 31, 2004 (\$1.26), less the option exercise price. Options are in-the-money if the market value of the shares covered thereby is greater than the option exercise price.

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Report of the Compensation and Stock Option Committee of the Board of Directors

The Compensation and Stock Option Committee of the Board of Directors (the "Committee") is composed of two or more Independent directors. During fiscal 2004 the Committee was composed of John T. Waldron (chair) and Paul C. Yuen.

The Committee is responsible for setting and administering the compensation policies, annual executive officers' compensation, making recommendations on potential bonus and stock option plans, granting bonuses and recommending to the Board of Directors grants of stock options to executive officers.

Compensation Philosophy

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 elements of this philosophy are:

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 significant equity-based incentives for executives to ensure that they are motivated over the long term to respond to the Company's business challenges.

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

Cash Compensation

Base Salary. 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.

Incentive Bonus Compensation. 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 each fiscal year, the Committee establishes a Management Incentive Plan for executive officers and other key management personnel under which executive officers and other key management personnel may earn bonuses, in amounts ranging up to 100% of the annual salaries, 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 under the Management Incentive Plan, and are 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 under the Management Incentive Plan are 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 this performance-based Management Incentive Plan, executive compensation, and the proportion of each executive's total cash compensation that is represented by incentive or bonus income, increases 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 profit growth, bonuses, and therefore also total executive compensation, should tend to be lower.

Long-Term Equity-Based Compensation

The Committee 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 grant date) 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.

Chief Executive Officer's Compensation

The Committee uses the same philosophy and procedures described above with respect to the other executive officers in setting the cash compensation and equity incentives for the Chief Executive Officer.

The compensation payable to Dr. Cysewski, the Company's Chief Executive Officer in fiscal 2004, 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

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summarized in this report, the Compensation Committee decided that Dr. Cysewski's salary would remain unchanged at \$110,000.

Dr. Cysewski was a participant in the Company's 2004 Management Incentive Plan as described above. During fiscal 2004, the Company achieved the annual operating plan targets. However, to comply with the covenants of the Company's Term Loan Agreement, no cash bonus was awarded to Dr. Cysewski.

Dr. Cysewski was granted options to purchase 9,000 shares of Common Stock in fiscal 2004 based on his position as President and Chief Executive Officer, and the desire to provide him with a continuing economic interest in the long term appreciation of the Company's Common Stock.

Submitted by the Compensation and Stock Option Committee of the Company's Board of Directors.

John T. Waldron, Chairman
Paul C. Yuen

The material in this Compensation and Stock Option Committee Report and the following 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.

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Report of the Audit Committee of the Board of Directors

The Audit Committee, which met four times in fiscal 2004, reviewed and discussed the Company's audited financial statements with management. The Audit Committee discussed with KPMG LLP, the Company's independent auditors, the matters required to be discussed by Statement of Auditing Standards No. 61, "Communication with Audit Committees," which includes, among other items, matters related to the conduct of the audit of the Company's financial statements. The Audit Committee also received written disclosures and the letter from KPMG LLP required by Independence Standards Board Standard No. 1, which relates to the accountants' independence from the Company and its related entities.

The Audit Committee is governed by the Audit Committee Charter adopted by the Board of Directors, a copy of which was attached as Exhibit A hereunder. Pursuant to the Charter, the Audit Committee has the following primary responsibilities:

- 1) Review the performance of the independent auditors and make recommendations to the Board of Directors regarding the appointment or termination of the independent auditors;
- 2) Confer annually with the independent auditors concerning the scope of their examinations of the books and records of the Company and its subsidiaries; reviewing and approving the independent auditors' annual engagement letter, and authorizing the independent auditors' to perform such supplemental reviews or audits as the Committee may deem desirable;
- 3) Review the range and cost of audit and non-audit services performed by the independent auditors;
- 4) Review the Company's audited financial statements and the independent auditors' opinion rendered with respect to such financial statements, including reviewing the nature and extent of any significant changes in accounting principles or the application thereof;
- 5) Review the adequacy of the Company's systems of internal controls.

The firm of KPMG LLP, an independent Registered Accounting Firm, served as the Company's independent auditor for the fiscal year ended March 31, 2004. As stated in Proposal Four, the Board has selected KPMG LLP to serve as the Company's independent auditor for the fiscal year ended March 31, 2005.

Audit services provided by KPMG LLP consisted of the examination of the Company's annual financial statements and services related to filings with the SEC as well as their review of the Company's quarterly financial statements. All fees paid to KPMG LLP were reviewed and considered for independence by the Audit Committee. In addition, the Audit Committee (i) discussed with KPMG the qualification of the partners and managers assigned to the Company's audit, (ii) reviewed with KPMG the quality control system for the US accounting and audit practice to provide reasonable assurance that the audit was conducted with professional standards, and (iii) confirmed with KPMG that there was appropriate continuity of personnel working on our audits and availability of national office consultation.

Based on the review and discussions referred to above, the Audit Committee recommended to the Company's Board of Directors that the Company's audited financial statements be included in the Company's Annual Report of Form 10-K for the fiscal year ended March 31, 2004.

Submitted by the Audit Committee of the Company's Board of Directors.

David I. Rosenthal, Chairman
Michael A. Davis
Paul C. Yuen

Independent Auditor's Fees

Audit Fees

The aggregate fees billed by KPMG LLP for professional services rendered for the audit of the Company's annual financial statements and timely quarterly reviews for the fiscal year ended March 31, 2004 and 2003 were \$88,000 and \$72,100, respectively.

Audit Related Fees

Audit related services consisted primarily of review of registration statements and issuance of consents. The aggregate fees billed by KPMG LLP for audit-related services for the year ended March 31, 2004 was nil. The aggregate fees billed by KPMG LLP for audit-related services for the fiscal year ended March 31, 2003 amounted to \$11,000.

Tax Fees

The aggregate fees billed by KPMG LLP for tax services rendered to the Company, for the fiscal years ended March 31, 2004 and 2003, were \$7,200 and \$6,900, respectively.

All Other Fees

There were no other fees billed by KPMG LLP for the fiscal years ended March 31, 2004 and 2003.

The Audit Committee has considered and does not believe the provision of all other services by the Company's auditor is incompatible with maintaining KPMG LLP's independence. See "Report of the Audit Committee."

A representative of KPMG LLP is expected to attend the 2004 Annual Meeting of Stockholders, and will have an opportunity to make a statement and to respond to appropriate questions from Stockholders.

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STOCKHOLDER RETURN PERFORMANCE GRAPH

The following graph sets forth the Corporation's total cumulative stockholder return as compared to the NASDAQ Composite U.S. Index and the NASDAQ Pharmaceutical index for the period beginning March 31, 1999 and ending March 31, 2004. Total stockholder return assumes \$100.00 invested at the beginning of the period in the Common Stock of the Corporation, the stocks represented in the NASDAQ Composite U.S. Index and the NASDAQ Pharmaceutical Index, respectively. Total return assumes reinvestment of dividends; the Corporation has paid no dividends on its Common Stock. Historical price performance should not be relied upon as indicative of future performance.

| | Cyanotech Corporation | Nasdaq Composite | Nasdaq Pharmaceutical Index |
|------|----------------------------------|-----------------------------|--|
| 3/99 | \$ 100 | \$ 100 | \$ 100 |
| 3/00 | 250 | 186 | 211 |
| 3/01 | 103 | 74 | 159 |
| 3/02 | 105 | 75 | 164 |
| 3/03 | 48 | 55 | 128 |
| 3/04 | 126 | 81 | 181 |

STOCKHOLDER PROPOSALS

Information about stockholder proposals intended to be considered at the 2005 Annual Meeting of Stockholders must be received by the Company no later than March 10, 2005. In addition, if a stockholder proposal is not submitted to the Company prior to May 24, 2005, the proxy to be solicited by the Board of Directors for the 2005 Annual Meeting of Stockholders will confer authority on the holders of the proxy to vote the shares in accordance with their best judgment and discretion when such proposal is presented at the 2005 Annual Meeting of Stockholders without any discussion of the proposal in the proxy statement for such meeting. The stockholder proposal must be mailed to the Company's principal executive offices, 73-4460 Queen Kaahumanu Hwy., Suite 102, Kailua-Kona, Hawaii 96740, Attention: Corporate Secretary. Such proposals may be included in next year's proxy statement if they comply with certain rules and regulations of the Securities and Exchange Commission (the "SEC").

OTHER MATTERS

At the date of this Proxy Statement, the Board of Directors does not know of any business to be presented for consideration at the meeting other than those set forth herein and in the Notice accompanying this Proxy Statement. If any other business should properly come before the meeting, the shares represented by Proxies may be voted in accordance with the judgment of the persons named in such proxies.

The Company will provide, without charge, to each person whose proxy is solicited by this Proxy Statement, on the written request of such person, a copy of the Company's most recent Annual Report on Form 10-K, including financial statements and financial statement schedules thereto, and if a nominal fee is paid, the exhibits thereto, as filed by the Company with the Securities and Exchange Commission. Requests should be directed to: Secretary, Cyanotech Corporation, 73-4460 Queen Kaahumanu Hwy., Suite 102, Kailua-Kona, HI 96740.

The Annual Report to the Stockholders of the Company, for the fiscal year ended March 31, 2004, including financial statements, is enclosed with this proxy statement.

You are most cordially invited to attend this meeting in person. **However, whether or not you plan to attend the meeting, please sign, date and return the enclosed proxy as promptly as possible in the envelope provided. This will not prevent you from voting in person at the meeting if you so desire.**

By Order of the Board of Directors

Jeffrey H. Sakamoto
Secretary

Kailua-Kona, Hawaii
July 2, 2004

Cyanotech Corporation
Charter and Powers of the Audit Committee
(As amended through June 2004)

I. Organization

The primary function of the Audit Committee (the "Audit Committee") shall consist of three or more Directors as designated by the Board of Directors (the "Board"). All members of the Audit Committee shall satisfy the independence requirements as defined in Nasdaq Rule 4200A and Nasdaq Rule 4350(d)(2). Additionally, the Chairperson of the Audit Committee must satisfy the financial literacy and expertise requirements as defined in the applicable listing standards of the Nasdaq Exchange and applicable securities law.

Meetings of the Audit Committee shall be called by the Chairman of the Board, the Secretary of the Corporation, a co-chairman of the Audit committee or any two Board members. The determination of a quorum for the transaction of business at any meeting of the Audit Committee shall be made in accordance with the By-Laws of Cyanotech Corporation ("Cyanotech" or the "Company"), and all matters shall be determined by a majority vote of the members present.

The Audit Committee may delegate any of its responsibilities to a subcommittee comprised of one or more members of the Audit Committee.

II. Purpose of the Audit Committee

The purpose of the Audit Committee shall be to provide assistance to the Board in fulfilling its oversight responsibility to stockholders, prospective stockholders, the investment community, and regulators relating to: (a) the quality and integrity of the financial statements of the Company; (b) the Company's compliance with legal and regulatory requirements; (c) the independent auditors' qualifications, independence and performance; (d) the performance of the Company's internal audit function; and (e) the fulfillment of other responsibilities set forth herein.

The Audit Committee's role is one of oversight. Management is responsible for preparing the Company's financial statements and the independent auditors are responsible for auditing those financial statements. Management is responsible for the fair presentation of the information set forth in the Company's financial statements and to assure that such financial statements have been prepared using generally accepted accounting principles applicable in the United States ("GAAP"). The independent auditors' responsibility is to provide its opinion, based on their audits, that the financial statements fairly present, in all material aspects, the financial position, results of operations, and cash flows of the Company in conformity with GAAP. However, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are in conformity with GAAP, or to assure compliance with applicable laws and regulations, the Company's ethical standards, or environmental compliance programs.

III. Responsibilities & Duties

In furtherance of the Audit Committee's purpose, and in addition to any other responsibilities that may be assigned to it from time to time by the Board, the Audit Committee shall have the following responsibilities and duties:

General

On a periodic basis, meet separately with Company management and the independent auditors so as to enable the Committee to perform its oversight role hereunder.

Permit direct access to the Audit Committee by the Chief Financial Officer, Controller, Internal Audit department, independent auditors, or any other person with respect to control, accounting, finance, or compliance matters.

Report its activities to the full Board on a regular and timely basis so that the Board is kept informed of Audit Committee activities.

Independent Auditors

Be directly responsible for the appointment (subject to ratification by the stockholders), retention, compensation, evaluation, oversight, and, where appropriate, replacement, of independent auditors (including resolution of disagreements between management and the independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services. The independent auditors shall report directly to the Audit Committee.

Review and approve each year the scope and plan of the audit to be performed by the independent auditors, including areas of special emphasis where appropriate.

Establish guidelines for the pre-approval of all audit and non-audit services to be performed by the independent auditors and, in accordance with such procedures, pre-approve all audit and non-audit services to be performed by the independent auditors.

Following completion of the annual audit, review with management and the independent auditors: (a) the results of the audit, including any difficulties encountered or any restrictions on the scope of the independent auditors' activities or access to required or requested information, during the course of the audit; (b) any major issues as to the adequacy of the Company's internal controls, any special audit steps adopted in light of material control weaknesses or significant deficiencies, and any significant recommendations for change or improvement in administrative and/or internal control procedures; (c) management's handling of any proposed audit adjustments; (d) any significant disagreement among management and the independent auditors; and (e) analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.

Review, at least annually, a report from the independent auditors as required by the Independence Standards Board (or any successor body) regarding the auditors' independence, and discuss such report with the independent auditors, and if so determined by the Audit Committee, take appropriate action to satisfy itself of the independence of the auditors.

Review, at least annually, a report by the independent auditors describing: (a) such firm's internal quality-control procedures; (b) any material issues raised by the most recent internal quality-control review, or peer review (if applicable), of such firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting any independent audits carried out by such firm and the response of such firm to same; and (c) (to assess such firm's independence) all relationships between the independent auditors and the Company.

Following completion of the annual audit and in conjunction with the other annual and quarterly reviews listed above, review with management the independent auditors' qualifications,

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performance, and independence, including review and evaluation of the lead partner and present to the Board, the Audit Committee's conclusions regarding this review.

Financial Reporting

Review with management and the independent auditors the Company's quarterly and annual financial statements, notes, and related information prepared by management, including the Company's disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and any report or opinion rendered by the independent auditors, and recommend that the annual financial statements, notes, and related information be included in the Company's Annual Report on Form 10-K.

Review significant accounting and reporting issues, including recent accounting and regulatory pronouncements and initiatives, and any off-balance sheet structures, and consider their potential impact on the Company's financial statements.

Review major issues regarding accounting principles and financial statement presentations, including significant changes to the Corporation's selection or application of accounting principles and practices.

Discuss generally with management, the Company's earnings press releases, as well as financial information and earnings guidance (if any) provided to analysts and ratings agencies.

Corporate Compliance

Regularly monitor the functioning of the Compan