

CYANOTECH CORP
Form DEF 14A
July 18, 2012
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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 X

Filed by a Party other than the Registrant O

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 under §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):

- No fee required.
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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 27, 2012 at 3:00 P.M. Hawaii Standard Time

To Our Stockholders:

You are cordially invited to attend the 2012 Annual Meeting of Stockholders (the Annual Meeting) of Cyanotech Corporation, a Nevada corporation (Cyanotech or the Company) to be held on Monday, August 27, 2012 at 3:00 P.M., Hawaii Standard Time, at the Waikoloa Beach Marriott, 69-275 Waikoloa Beach Drive, Waikoloa, Hawaii, USA, 96738, or at any adjournment or postponement thereof, for the following purposes:

1. To elect five directors from among the nominees named in the Proxy Statement to serve until the next Annual Meeting of Stockholders and until their successors are duly elected and qualified;
2. To amend and restate Article III of the Company s Amended and Restated Articles of Incorporation to increase the number of authorized shares to 60,000,000, to be comprised of 50,000,000 shares of common stock, par value \$0.02 per share, and 10,000,000 shares of preferred stock, par value \$0.01 per share;
3. To ratify the selection of Grant Thornton LLP as the Company s independent registered public accounting firm for the fiscal year ending March 31, 2013; and
4. 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 report on operations for fiscal year 2012 and answer appropriate questions that you may have about Cyanotech and its activities.

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The Board of Directors fixed the close of business on July 3, 2012 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.

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

/s/ Jolé E. Deal
Corporate Secretary

Kailua-Kona, Hawaii
July 18, 2012

Your vote is important. Whether or not you plan to attend this meeting, please vote your shares. This year you may submit your proxy: (i) by mail (after completing, signing and dating the enclosed card); (ii) by telephone; or (iii) by internet. If you do attend the meeting, you may vote at that time, which will revoke automatically any prior vote you may have submitted. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder. Further instructions are included in the Proxy Statement under Voting Rights and Solicitation.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

FOR THE ANNUAL STOCKHOLDER MEETING TO BE HELD ON AUGUST 27, 2012

The Proxy Statement and 2012 Annual Report on Form 10-K are available on the internet at www.envisionreports.com/CYAN.

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Proxy Statement for 2012 Annual Meeting of Stockholders

To be held August 27, 2012

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Stockholders Should Read the Entire Proxy Statement Carefully Prior to Completing and Submitting Their Proxies by Internet, Mail or Telephone

**PROXY STATEMENT
FOR
ANNUAL MEETING OF STOCKHOLDERS OF CYANOTECH CORPORATION
To Be Held Monday, August 27, 2012**

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 2012 Annual Meeting of Stockholders (the Annual Meeting) which will be held on Monday, August 27, 2012 at 3:00 P.M., Hawaii Standard Time, at the Waikoloa Beach Marriott, 69-275 Waikoloa Beach Drive, Waikoloa, Hawaii, USA, 96738, or at any adjournment or postponement thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. On July 18, 2012, the Company distributed to stockholders of record a Meeting Notice Regarding the Availability of Proxy Materials for this meeting containing instructions on how to access via the internet (www.envisionreports.com/CYAN) this Proxy Statement, the Notice of Annual Meeting, the form of proxy and our Annual Report on Form 10-K for the fiscal year ended March 31, 2012, and our undertaking to also mail a full set of such proxy materials, together with a postage paid envelope for returning non-electronic proxy cards, to any stockholders who request paper copies at no cost to them.

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, so that your shares will count toward determination of the presence of a quorum and your shares can be voted at the meeting.

Who May Vote: The close of business on July 3, 2012 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 3, 2012, 5,440,968 shares of Common Stock, \$0.02 par value per share, were issued and outstanding. You may vote by submitting your proxy card by internet, telephone, mail or in person at the meeting, or you may attend the meeting and vote your shares in person by ballot.

Methods of Voting: All stockholders of record may vote by mail by completing, signing, dating and returning their proxy cards in the postage-paid envelope. If you sign, date and return your proxy card without indicating how you want to vote, your proxy will be voted as recommended by the Board of Directors. Stockholders of record can instead vote by toll-free telephone or the internet website address listed on the proxy card; they may also vote by proxy card or by ballot if personally present at the meeting, but only the last vote before the polls close at the meeting will count. Stockholders who hold their shares through a broker, trustee or other nominee also can vote by telephone or internet as instructed by their bank, broker or other nominee; as beneficial owners they can also vote at the meeting if they present a separate legal proxy from the actual record holder and in that event only the final vote made in the name of the stockholder of record will count.

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 taken exceeds the number of votes cast in opposition to the action, except that Proposal TWO requires that a majority of *all* outstanding shares be voted for approval. Abstentions are counted only for purposes of determining whether a quorum is present.

Voting Shares Held by Brokers, Banks and Other Nominees: Votes will be counted by the inspectors of election appointed for the meeting, who will separately count For and Withhold and, with respect to any proposals other than the election of directors, Against votes, abstentions and broker non-votes. A broker non-vote occurs when a broker, trustee or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker, trustee or other nominee does not have discretionary voting power with respect to that proposal and has not received instructions with respect to that proposal from the beneficial owner, despite voting on at least one other proposal for which it does have discretionary authority or for which it has received instructions.

Many of our stockholders may hold some or all of their shares through a broker, trustee or other nominee, rather than directly in their own name. As summarized below, there are distinctions between shares held of record and those owned beneficially.

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- **Stockholders of Record** If your shares are registered directly in your name with our transfer agent, you are considered, with respect to those shares, the stockholder of record. As the stockholder of record, you have the right to grant your voting proxy directly to us or to a third party and to vote by completing a proxy card by internet, by telephone or by mail, or to vote in person by ballot or by proxy at the Annual Meeting of Stockholders.

- **Beneficial Owners** If any or all of your shares are held in a brokerage account, by trustee or by another nominee, you are considered, with respect to those shares, the beneficial owner. As the beneficial owner of those shares, you have the right by internet, telephone or mail to direct your broker, trustee or nominee how to vote, and you also are invited to attend the Annual Meeting of Stockholders in person. Because a beneficial owner is not the stockholder of record, however, you may not vote these shares in person at the Annual Meeting of Stockholders unless you obtain a legal proxy from the broker, trustee or other nominee that holds your shares, giving you the right to vote the shares at the Annual Meeting of Stockholders.

For your vote to be counted, you must communicate your voting decisions by internet, telephone or mail to your broker, trustee or other nominee before the date of the stockholders meeting. Brokers, trustees and other nominees who do not receive instructions are entitled to vote those shares with respect to the two proposals to amend existing stock plans and the ratification of our independent registered public accounting firm, but *not* with respect to election of directors. Abstentions and broker non-votes will be included *only* in determining the presence of a quorum at the Annual Meeting, but *will not be counted* as votes cast on any proposals to be voted upon.

Voting your shares is important to ensure that you have a say in the governance of your Company. Please review these proxy materials and if you are a beneficial owner follow the voting instruction form you receive from your broker, bank or other nominee to vote your shares. We hope that you will exercise your rights and fully participate as a stockholder in our Company's future. If you have any questions about this new rule or the proxy process in general, please contact the broker, bank or other financial institution where you hold your shares. The SEC also has a website (www.sec.gov/spotlight/proxymatters.shtml) with more information about your rights as a stockholder. Additionally, you may contact Jolé Deal, Corporate Secretary, by telephone at 808-326-1353 or by email to jdeal@cyanotech.com.

Voting Shares by Proxy: Shares represented by proxies in the accompanying form which are properly executed and returned to Cyanotech by internet, by mail or by telephone will be voted at the Annual Meeting in accordance with the stockholder's instructions contained on the proxy or herein. To submit your proxy by mail, mark your votes on the enclosed form of proxy, then follow the directions on the form of proxy. To submit your proxy using the internet or by telephone, see the instructions on the proxy form and have the proxy form available when you access the internet website or place your telephone call. In the absence of contrary voting instructions properly submitted, all shares represented by properly submitted proxies which have not been revoked will be voted:

a) **FOR** the election of each of the directors as described herein under Proposal ONE Election of Directors ;

b) **FOR** Proposal TWO to amend and restate Article III of the Company's Amended and Restated Articles of Incorporation to increase the number of authorized shares to 60,000,000, to be comprised of 50,000,000 shares of common stock, par value \$0.02 per share, and 10,000,000 shares of preferred stock, par value \$0.01 per share; and

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c) **FOR** Proposal THREE to ratify the selection of Grant Thornton LLP as the Company's independent registered public accounting firm for Fiscal Year 2013.

Management does not know of any other 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 letters from 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.

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Revoking Your Proxy: Any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is exercised at the stockholder meeting. It may be revoked by filing with the Secretary of the Company at the Company's principal executive office, 73-4460 Queen Kaahumanu Highway, 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.

IMPORTANT NOTICE

Regarding Availability of Proxy Materials

For the Annual Meeting to Be Held on August 27, 2012

As permitted by the SEC, the Company is making available its Notice of Annual Meeting, Proxy Statement and Annual Report for fiscal year ended March 31, 2012 at www.envisionreports.com/CYAN. If you received the Company's notice containing instructions on how to access these materials via the internet, you will not receive a printed copy of the proxy materials unless you request a copy by following the instructions contained in the notice which directs stockholders to that website, or to telephone toll-free 1-866-641-4276 or to email a request to investorvote@computershare.com.

- **Stockholders of Record.** If your shares are registered in your own name, you may enroll to have future proxy materials delivered via e-mail or the internet by following the instructions at www.envisionreports.com/CYAN. You will need the control number on your proxy card to enroll.
- **Beneficial Stockholders.** If your shares are not registered in your name, to enroll in the electronic delivery service, check the information provided to you by your bank or broker or contact your bank or broker for information on electronic delivery service.

Delivery of One Proxy Statement and Annual Report

To a Single Household to Reduce Duplicate Mailings

Each year in connection with the Annual Meeting of Stockholders, the Company is required to furnish to each stockholder of record a proxy statement and annual report and to arrange for a proxy statement, annual report and, if applicable, notice of internet availability of proxy materials to be furnished to each beneficial stockholder whose shares are held by or in the name of a broker, bank, trust or other nominee. Because many stockholders hold shares of the Cyanotech Common Stock in multiple accounts, this process may result in duplicate mailings of proxy materials to stockholders who share the same address. Stockholders can avoid receiving duplicate mailings and save the Company the cost of producing and mailing duplicate documents as follows:

- **Stockholders of Record.** If your shares are registered in your own name and you are interested in consenting to the delivery of a single copy of proxy materials (other than proxy cards), you may also do so via the internet by going directly to

www.envisionreports.com/CYAN and following the instructions therein.

- **Beneficial Stockholders.** If your shares are not registered in your own name, your broker, bank, trust or other nominee that holds your shares may have asked you to consent to the delivery of a single copy of proxy materials (other than proxy cards) if there are other stockholders who share an address with you. If you currently receive more than one copy of proxy materials at your household and would like to receive only one copy in the future, you should contact your nominee.

Right to Request Separate Copies. If you consent to the delivery of a single copy of proxy materials but later decide that you would prefer to receive a separate copy of proxy materials for each account at your address, then please notify the Company or your nominee, as applicable, and the Company or your nominee will promptly deliver such additional proxy materials. If you wish to receive a separate copy of the proxy materials for each account at your address in the future, please call toll-free 1-866-641-4276 or send an email to investorvote@computershare.com.

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PROPOSAL ONE

Election of Directors

Board Nominees

A board of five 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 five Board nominees named below, all 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. It is the Company's policy that all Board members attend each annual meeting of stockholders; last year all six Board members attended the Annual Meeting of Stockholders.

The following sets forth certain information on each of the nominees for election to serve as a director of the Company until the 2013 Annual Meeting of Stockholders including each director's background, principal occupations and employment, as well as, specific experience, qualifications, attributes and skills that led to the Board's conclusion that each of the nominees for director should serve on the Board at the time of this Proxy Statement, in light of the Company's current business and structure:

Brent D. Bailey 59: Mr. Bailey was elected to the Board by the Board of Directors on November 5, 2010, pursuant to a Letter Agreement under which he was designated to become President and Chief Executive Officer on January 11, 2011. Over the prior five years he had formed and expanded his own leadership development and strategic planning consulting firm, following thirty years of experience as an executive. He had served as President and Chief Operating Officer of Pharmavite, a subsidiary of Otsuka Pharmaceutical Company, where he built the company into an industry leader and its Nature Made brand into the #1 mass market nutritional supplement brand nationwide. Earlier he was Executive Vice President of Marketing at Del Monte Foods; Senior Vice President & General Manager Household Division of The Dial Corporation; Executive Vice President of Marketing Personal Care Division of Weyerhaeuser; Vice President of Sales and Marketing Van de Kamp's Frozen Foods Division of Pillsbury; and various marketing positions with Frito-Lay, Procter & Gamble and a health care start-up. Mr. Bailey received a B.A. degree from Claremont McKenna College and an M.B.A. from UCLA The Anderson School of Management. His extensive management, marketing, strategic planning and implementation skills, as well as his leadership qualities, were critical to the Board's selection of Mr. Bailey both as a director and as the Company's principal executive officer.

Thomas Chen 62: Mr. Chen was elected to the Board on June 6, 2011. He adds to the Board over 31 years of senior executive experience with leading pharmaceutical, nutritional product and hospital device companies. From 2006 to 2010, he was President of the International Nutrition Division of Abbott Laboratories, the worldwide leader in medical nutrition products. Mr. Chen led Abbott's rapid expansion of its pediatric and medical nutrition products in the international arena since its establishment as a standalone division in 2005. Its pediatric nutrition products also hold a leadership position in key markets around the globe. Additionally, Chen spearheaded Abbott's entry and expansion into emerging markets including China and other key countries in Asia and Latin America. Previously, Chen was appointed Vice President of Abbott's Asia, Pacific and Africa region responsible for managing the pharmaceutical, hospital devices and nutritional businesses in 1998. Prior to joining Abbott in 1988,

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Chen held various management positions with American Cyanamid Company (merged with American Home Products in 1994). From 2004 to 2007, he also served on the board of the Clara Abbott Foundation, a non-profit organization that provides educational and financial assistance to families. In addition he served on the advisory board of Abbott's Asia Leadership and Cultural Network, an organization that promotes cultural awareness and diversity. Chen holds an M.B.A. degree from University of Indiana in Bloomington, Indiana and a bachelor's degree in Commerce from National Cheng Chi University in Taipei, Taiwan. Mr. Chen contributes extensive line management and operating experience to Cyanotech, together with keen knowledge of the nutrition market.

Ralph K. Carlton '56: Mr. Carlton was elected to the Board and to its Audit Committee by the Board of Directors on January 26, 2011. He currently serves as the Chief Financial Officer of Cambrooke Foods, Inc., a clinical nutrition company. He served as Chief Strategy and Development Officer of DEKA Research and Development from 2006 to 2009. He also served in multiple roles at the Coca-Cola Company, including Vice President, Finance and Strategy, Corporate Innovation and Development from 2003 to 2005; Vice President, Strategy and Planning in 2003 and Senior Vice President, Coca-Cola Ventures from 2001 to 2003. Previously from 1997 to 2000 he served as Senior Vice President, Finance and Administration and Chief Financial Officer of IDEXX Laboratories. Prior to that position he was an investment banker at Donaldson, Lufkin and Jenrette, after serving in that same position at Goldman Sachs. Mr. Carlton holds a B.A. from Dartmouth College and an M.B.A. with distinction from Amos Tuck School of Business Administration at Dartmouth College. His financial and accounting background and entrepreneurial leadership experiences with global healthcare objectives are critical to the Company's long range goals.

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Gerald R. Cysewski, Ph. D. 63: Dr. Cysewski, Executive Vice President and Chief Scientific Officer, co-founded the Company in 1983 and has served as a director of the Company since that time. From 1990 to May 16, 2008, Dr. Cysewski served as the Company's President and Chief Executive Officer, as well as, Chairman of the Board. Prior to 1990 Dr. Cysewski served in various other capacities for the Company including Vice Chairman and Scientific Director. 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. Dr. Cysewski continues to be recognized as a leading authority on large scale production of micro-algae and is a frequently invited speaker at industry gatherings around the world, providing insight to the Board on changes in micro-algae science and regulatory matters that impact the Company. His extensive experience with the Company and his expertise in micro-algae production make him uniquely qualified to serve on our Board.

Michael A. Davis 59: 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. He was appointed to serve as Chairman of the Board of Directors on April 13, 2011. 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. His current beneficial ownership of the Company's outstanding common stock is 19.5%. Mr. Davis' business and investment experiences, as well as his long association with the Company provide the Board with critical perspective on the business issues the Company faces.

Required Vote

The affirmative vote of the holders of a majority of the aggregate voting power of the Company's Common Stock present in person or represented by proxy at a meeting at which a quorum is present, is required for the election of each nominated director.

The Board of Directors unanimously recommends that the stockholders vote FOR each of the above named director nominees.

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BOARD MEETINGS AND COMMITTEES

Board Meetings

During fiscal year 2012 the Board met seven (7) 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 for 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. Other considerations are set forth in the Company's Bylaws. 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. The Company's Bylaws contain procedures for stockholder nominations which are discussed in greater detail under STOCKHOLDER PROPOSALS AND NOMINATIONS on page 23 hereof. 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 and, if appropriate, engage a consultant to assist the Committee. 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.

Each of the nominees for election at this annual meeting was unanimously 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 Mr. Bailey and 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 5605(a)(2). 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.

Under Nasdaq Rule 5605(a)(2), an Independent Director is a person *other than an Executive Officer* of the company having a relationship which, in the opinion of the company's board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Since Mr. Bailey is President and Chief Executive Officer of the Company, and since Dr. Cysewski is Executive Vice President and Chief Scientific Officer of the Company, neither may be considered an Independent Director under Nasdaq Rule 5605(a)(2).

The Independent Directors meet in executive session without the Chief Executive Officer or any other member of management in attendance at least twice annually in accordance with Nasdaq Corporate Governance Rules. In fiscal year 2012 there were at least two (2) such sessions. Michael A. Davis served as Chairman of such meetings. The Chairman, in conjunction with each other independent director, raised the issues discussed. Any Independent Director may request an executive session of Independent Directors to discuss any matter of concern.

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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 (or to a specific named-director), 73-4460 Queen Kaahumanu Highway, #102, Kailua-Kona, Hawaii, 96740, or by e-mail to board@cyanotech.com. All written communications received will be directed to the relevant director or the non-management directors as a group.

Code of Conduct and Ethics

The Company has adopted the Cyanotech Code of Ethics for Chief Executive Officer and Senior Financial Officers (the Code of Ethics), which is included in our Code of Conduct and Ethics. We have also adopted the Board of Directors Code of Conduct. Both Codes are publicly available on our website at www.cyanotech.com. The Codes contain 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 listing standards.

Corporate Governance

In addition to the Company's Amended and Restated Articles of Incorporation, the Company's Amended and Restated Bylaws and other key Company governance documents, including its Audit Committee Charter, Compensation and Stock Option Committee Charter, 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 hereby 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.

The Company has chosen to separate the chief executive officer and board chairman positions as a matter of good corporate governance and to efficiently utilize the skills and time of the individuals who currently serve in these positions. Mr. Bailey, the Company's President and Chief Executive Officer is primarily involved in the day to day responsibilities and obligations of the Company, while Mr. Davis, the Board's Chairman, provides strategic direction for the Company and presides over meetings of the Board. These two key leaders communicate regularly with each other.

The Board is limited by its size, but plays a fundamental role in the Company's risk oversight process, both directly and through the delegation to its committees of responsibilities related to the oversight of certain risks, and regularly discusses with management the Company's major risk exposures, their potential impact on the Company's business and the steps the Company can take to manage them.

While the Board is ultimately responsible for all risk oversight of the Company, the Audit Committee focuses on financial risks as they relate to the Company's financial reporting process, financial statements and internal controls, among other responsibilities set forth in the Audit Committee's Charter. The Nominating and Corporate Governance Committee focuses on the management of risks associated with the Board's

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organization, membership, governance and structure. The Compensation and Stock Option Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks arising from the Company's compensation policies, bonus plans and incentive option plans.

The Company has an ongoing commitment to good governance and business practices. This includes regular monitoring and balancing of the Company's processes and procedures in light of any new corporate governance best practices, and a continual review of changes in federal law and the rules and regulations promulgated by the SEC and the regulations of the Nasdaq Stock Market, LLC. These practices help to ensure that the Company will timely comply with new laws and rules and will implement other corporate governance practices which it believes to be in the best interest of the Company and its stockholders.

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Board Committees

The Board of Directors of the Company has an Audit Committee, Nominating and Governance Committee and 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 on November 8, 2011. A copy of the Charter and Powers of the Audit Committee can 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 Rules 5605(a)(2) and 5605-3(2)(A). On October 26, 2010, Gregg W. Robertson, chair of the Committee, resigned from the Board and the Company no longer complied with Nasdaq's audit committee requirements as set forth in Listing Rule 5605. On January 26, 2011, the Board of Directors elected Ralph K. Carlton to the Board and determined that he met the requirements as a financial expert as defined in Rule 10A(m) of the Act. Mr. Carlton was named to serve on the Audit Committee and was selected as its Chair. Through that action, the Company regained compliance with Nasdaq requirements. The Committee held four (4) meetings during fiscal year 2012 and is now comprised of independent directors Ralph K. Carlton (Chair), Thomas F. Chen and John T. Waldron.

The Nominating and Corporate Governance Committee operates and acts under a written charter, which was adopted and approved by the Cyanotech Board of Directors on January 7, 2010, a copy of which can be found on the company's website at www.cyanotech.com. 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 Rule 5605(a)(2). The Nominating and Corporate Governance Committee, comprised of independent directors Michael A. Davis (Chair), Ralph K. Carlton and Thomas F. Chen, held two (2) meetings during fiscal year 2012.

The Compensation and Stock Option Committee operates and acts under a written charter, which was adopted and approved by the Cyanotech Board of Directors on January 7, 2010 and which is also available on the Company's website at www.cyanotech.com. 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. Based on such review, the Committee recommended to the Board that such information be included in the Company's proxy statement. 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 5605(a)(2). The Compensation and Stock Option Committee, comprised of independent directors John T. Waldron (Chair), Michael A. Davis and Thomas F. Chen, held four (4) meetings during fiscal year 2012.

