

CYANOTECH CORP  
Form DEF 14A  
July 23, 2010  
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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 Pursuant to §240.14a-12

Cyanotech Corporation  
(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- ☒ 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 Wednesday, September 1, 2010 at 3:00 P.M. Hawaii Standard Time

To Our Stockholders:

You are cordially invited to attend the 2010 Annual Meeting of Stockholders (the "Annual Meeting") of Cyanotech Corporation, a Nevada corporation ( "Cyanotech" or the "Company" ) to be held on Wednesday, September 1, 2010 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;
2. To amend and restate the Company's Articles of Incorporation by clarifying, simplifying, adding and eliminating certain provisions;
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, 2011; 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 2010 and answer appropriate questions that you may have about Cyanotech and its activities.

The Board of Directors fixed the close of business on July 13, 2010 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

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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/ Deanna L. Spooner  
Corporate Secretary

Kailua-Kona, Hawaii  
July 23, 2010

**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 SEPTEMBER 1, 2010**

*The Proxy Statement and 2010 Annual Report on Form 10-K are available on the internet at [www.envisionreports.com/CYAN](http://www.envisionreports.com/CYAN).*

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**CYANOTECH CORPORATION**

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**To be held September 1, 2010**

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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 Wednesday, September 1, 2010**

**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 2010 Annual Meeting of Stockholders (the Annual Meeting) which will be held on Wednesday, September 1, 2010 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 23, 2010, 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](http://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, 2010, and our undertaking to also mail a full set of such proxy materials 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 13, 2010 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 13, 2010, 5,360,387 shares of Common Stock, \$.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 broker, trustee 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.

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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 majority of all votes cast. For approval of any amendment to the Articles of Incorporation, such as Proposal Two, the number of votes cast for the amendment must equal fifty (50%) percent of the issued and outstanding stock of the Company. For approval of all other matters to be voted on, when a quorum is present a matter is approved if the number of votes cast in favor of the action exceeds the number of votes cast in opposition to the action. Abstentions are counted only for purposes of determining whether a quorum is present.

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

- **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.

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• **Beneficial Owners** If your shares are held in a brokerage account, by a 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.

Please note: If you hold your shares through a broker, trustee or other nominee, the U.S. Securities and Exchange Commission ( SEC ) has approved a New York Stock Exchange rule that changes the manner in which *your vote* in the election of directors will be handled at our Annual Meeting. Stockholders who hold Cyanotech shares through a broker, trustee or other nominee receive proxy materials and a voting instruction form either electronically or by mail before each stockholder meeting. In the past, if you did not transmit your voting instructions before the stockholder meeting, your broker, trustee or other nominee was allowed to vote on your behalf on the election of directors and other matters considered to be routine.

New rule: Effective January 1, 2010, your broker, trustee or other nominee is no longer permitted to vote on your behalf on the election of directors or other proposals unless you provide specific instructions by completing and returning the voting instruction form by mail or by following the instructions provided to you to vote your shares via telephone or the internet.

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 *only* with respect to the ratification of the selection of our independent registered public accounting firm, but not with respect to any other matter to be presented at this Annual Meeting of Stockholders, including the election of directors or the Proposal to Adopt the Amended and Restated Articles of Incorporation. 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](http://www.sec.gov/spotlight/proxymatters.shtml)) with more information about your rights as a stockholder. Additionally, you may contact Deanna Spooner, Corporate Secretary by telephone at 808-326-1353 or by email at [dspooner@cyanotech.com](mailto:dspooner@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 adopt the Company's Amended and Restated Articles of Incorporation; and

c) **FOR** Proposal Three to Ratify the Selection of Grant Thornton LLP as the Company's Independent Registered Public Accounting Firm for Fiscal Year 2011.

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 September 1, 2010**

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, 2010 at [www.envisionreports.com/CYAN](http://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](mailto: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](http://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](http://www.envisionreports.com/CYAN) and

following the instructions therein.

- **Beneficial Stockholders.** If your shares are not registered in your own name, your broker, bank, trustee 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 broker, trustee or 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 material for each account at your address, then please notify the Company or your broker, trustee or nominee, as applicable, and the Company broker, trustee 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](mailto:investorvote@computershare.com).

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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 five of six Board members attended the annual meeting of stockholders.

The following table sets forth certain information regarding the members of the Board of Directors, each of whom was elected at the last annual meeting of stockholders, and each of whom is a nominee to serve as a director of the Company until the 2011 Annual Meeting of the Stockholders.

| <b>Name</b>               | <b>Principal Occupation</b>   | <b>Director Since</b> | <b>Age</b> |
|---------------------------|---|-----------------------|------------|
| Gerald R. Cysewski, Ph.D. | Executive Vice President and Chief Scientific Officer, Cyanotech Corporation, Co-founder                    | 1983                  | 61         |
| Michael A. Davis          | Private Investor, Tiburon, CA   | 2003                  | 58         |
| Gregg W. Robertson        | President and Chief Executive Officer of Robertson & Company (Financial services consultancy), Honolulu, HI | 2004                  | 76         |
| David I. Rosenthal        | Interim President and Chief Executive Officer, Cyanotech Corporation since February 27, 2010                | 2000                  | 55         |
| John T. Waldron           | Chief Executive Officer, Stratmark Services, Deerfield, IL  | 1998                  | 58         |

The following is additional information on each director's background, place of residence, principal occupations and employment, including 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:

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*Gerald R. Cysewski, Ph. D. Kailua-Kona, Hawaii:* 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 Tiburon, California:* Mr. Davis was appointed to the Board of Directors of the Company in March 2003 subsequent to his acquisition of \$1,250,000 of subordinated convertible debentures of the Company in September 2002. Mr. Davis is a Principal at Ebb and Flow Ventures, a private equity firm; President of Skywords Family Foundation and a Director of Canobie Films, Inc. Mr. Davis attended Harvard University. His current beneficial ownership of the Company's outstanding common stock is 17.6%. Mr. Davis's 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.

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*Gregg W. Robertson Honolulu, Hawaii:* Mr. Robertson was appointed to the Board of Directors of the Company in August 2004. Mr. Robertson is the President and Chief Executive Officer of Robertson & Company, a privately-owned investment banking firm which was established in 1986, providing acquisition and divestiture expertise in real estate development, construction, energy, shipping and other industries. Robertson & Company is 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 Dickinson University, Teaneck, N.J. Mr. Robertson provides the Company's Board with leadership and a strong mix of skills and experience in areas which include financial guidance, executive management and oversight of both public and private companies.

*David I. Rosenthal Denver, Colorado:* Mr. Rosenthal was appointed to the Board of Directors of the Company in November 2000. Mr. Rosenthal is currently the Interim President and Chief Executive Officer of Cyanotech Corporation. From April 2008 to March 2009, Mr. Rosenthal was Chief Financial Officer at Hickory Farms, Inc., a provider of food and gift products. Hickory Farms, Inc. is a private company located in Maumee, Ohio. Previously, he was the Chief Financial Officer of Sanz, Inc., a publicly traded company located in Englewood, Colorado that was a value-added reseller for data storage solutions. From 2003 to May of 2006 he was the Executive Vice President and Chief Financial Officer for SpectraLink Corporation, a publicly traded company located in Boulder Colorado that designed, manufactured and marketed 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 is a C.P.A. and holds a B.S. degree in Accounting from the University of California at Berkeley and a M.B.A degree from California State University, East Bay. Mr. Rosenthal brings extensive knowledge of the food and natural products industries and in depth experience in management, accounting, acquisitions, treasury and finance issues to the Company's Board.

*John T. Waldron Deerfield, Illinois:* Mr. Waldron was appointed to the Board of Directors of the Company in July 1998. Mr. Waldron is CEO of Stratmark Services in Deerfield, Illinois and Adjunct Professor of Marketing at the Lake Forest Graduate School of Management in Lake Forest, Illinois. Stratmark Services provides consulting services worldwide in the areas of strategic planning and marketing of human nutritional ingredients. 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. Mr. Waldron provides unique insight on issues critical to our Company's production, marketing and sales activities.

***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.** The enclosed Proxy will be voted for each nominee unless a contrary specification is made.

**BOARD MEETINGS AND COMMITTEES**

## **Board Meetings**

During fiscal year 2010 the Board met five (5) 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

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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 22. In making its nominations, the Nominating and Corporate Governance Committee identifies nominees by first evaluating the current members of the Board willing to continue their service. Current members with qualifications and skills that are consistent with the committee's criteria for Board service are re-nominated. As to new candidates, the committee will generally poll the Board members and members of management for recommendations. The committee may also review the composition and qualification of the boards of directors of the Company's competitors, and may seek input from industry experts or analysts. The committee reviews the qualifications, experience and background of the candidates. Final candidates are interviewed by the independent directors and executive management. In making its determinations, the committee evaluates each individual in the context of the Board as whole, with the objective of assembling a group that can best represent stockholder interests through the exercise of sound judgment. After review of all pertinent data, and due deliberation by the committee, this slate of nominees is recommended to the Board of Directors and the stockholders for election. Historically, the Board of Directors has not relied on third-party search firms to identify director nominees. The committee may in the future choose to engage third-party search firms in situations where particular qualifications are required or where existing contacts are not sufficient to identify an appropriate candidate.

Each of the nominees for election at 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. Rosenthal 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. Rosenthal is Interim 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). Upon Mr. Rosenthal's completion of his temporary appointment as Interim President and Chief Executive Officer, his status will be re-evaluated under Nasdaq rules applicable to directors who accept such temporary executive appointments.



The Independent Directors meet in executive session without the Chief Executive Officer or any other member of management attending at least twice annually in accordance with Nasdaq Corporate Governance Rules. In fiscal year 2010 there were eight (8) such sessions. Gregg W. Robertson served as Chairman of such meetings and was responsible for the issues discussed. Any Independent Director may request an executive session of Independent Directors to discuss any matter of concern.

#### **Stockholder Communication with Directors**

Stockholders may, at any time, communicate in writing with any particular director, or the non-management directors as a group, by sending such written communication to Cyanotech Corporation Non-Management Directors (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.

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**Code of Conduct and Ethics**

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

**Corporate Governance**

In addition to the Company's Restated Articles of Incorporation and amendments thereto, the Company's Amended and Restated Bylaws and other key Company governance documents, the Nominating and Governance Committee Charter and the Code of Conduct and Ethics, are available on the Company's website at [www.cyanotech.com](http://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. Rosenthal, the Company's Interim President and Chief Executive Officer is primarily involved in the day to day responsibilities and obligations of the Company, while Mr. Robertson, the Board's Chairman, provides the strategic direction for the Company and presides over meetings of the Board. These two key leaders communicate regularly with each other.

The Board of five 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 Committee's Charter. The Nominating and Corporate Governance Committee focuses on the management of risks associated with the Board's organization, membership 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. Finally, the Finance Committee oversees financial policies of the Company and makes recommendations to the Board in matters including capital structure, equity and debt financings, capital expenditures and cash management.

The Company has an ongoing commitment to good governance and business practices. This includes regular monitoring of the Company's processes and procedures in light of corporate governance developments, 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.

### **Board Committees**

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

*The Audit Committee* operates and acts under a written charter, which was revised and approved by the Cyanotech Board of Directors in June 2004. A copy of the Charter and Powers of the Audit Committee was filed as an exhibit to the 2004 Notice of Annual Meeting and Proxy Statement and is hereby incorporated by reference. This document can also be found on the Company's website at [www.cyanotech.com](http://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). The Board of Directors identified David I. Rosenthal as a financial expert as defined in Rule 10A(m) of the Securities Exchange Act

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of 1934 (the Act). The Audit Committee, comprised of independent directors David I. Rosenthal (Chair), Gregg W. Robertson, and John T. Waldron, held three (3) regularly scheduled meetings during fiscal year 2010; however, on February 27, 2010, Mr. Rosenthal resigned from the Audit Committee in order to comply with independence rules of Nasdaq regarding audit committee members and directors concurrently with acceptance of his appointment by the Board of Directors to serve as Interim President and Chief Executive Officer. Thereupon Gregg W. Robertson was identified by the Board of Directors as a financial expert as defined in Rule 10A(m) of the Act, and he assumed the chair of the Committee. However, having only two, rather than three, independent Board members on the Committee was less than full compliance with Nasdaq Listing Rule 5605(c)(2)(A) and Rule 10A-3(b)(1) of the Act. On June 24, 2010, the Board restored the Committee to full compliance by appointing Michael A. Davis to the Committee as its third independent director member after finding that he was independent despite that, due to his shareholdings (17.6% of the Company's outstanding stock), he falls outside the safe harbor provisions of Rule 10A-3(e)(1)(ii) of the Act.

*The Nominating and Corporate Governance Committee* operates and acts under a written charter, which was adopted and approved by the Cyanotech Board of Directors in June 2004. A copy of the Nominating and Corporate Governance Committee Charter was filed as an exhibit to the 2004 Notice of Annual Meeting and Proxy Statement and is hereby incorporated by reference. The Nominating and Corporate Governance Committee's functions include (1) reviewing the background and qualifications of potential nominees for the Cyanotech Board of Directors presented by stockholders, directors and management, (2) recommending to the Board a slate of nominees to be submitted to the stockholders for election at the next Annual Meeting of Stockholders, (3) advising the Board with respect to matters of Board composition and procedures, and (4) overseeing the annual evaluation of the Board. Among the qualifications considered in the selection of candidates are knowledge, experience, skills, expertise, diversity, personal and professional integrity, character, business judgment, time availability, dedication and absence of conflicts of interest see caption Director Nomination Process above. All members of the Nominating and Corporate Governance Committee are independent directors under Nasdaq Rule 5605(a)(2). The Nominating and Corporate Governance Committee, comprised of independent directors Michael A. Davis (Chair) and John T. Waldron, held one (1) regularly scheduled meeting during fiscal year 2010.

*The Compensation and Stock Option Committee* operates and acts under a written charter, which was adopted and approved by the Cyanotech Board of Directors and which is also available on the Company's website at [www.cyanotech.com](http://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 Gregg Robertson, held three (3) regularly scheduled meetings during fiscal year 2010.

On January 7, 2010 the Board approved the creation of a standing *Finance Committee* composed of three independent directors. The committee is charged with overseeing financial policies of the Company and making recommendations to the Board for its consideration and action, pertaining to matters such as: capital structure; equity and debt financings; capital expenditures; cash management; banking activities and relationships; investments; foreign exchange activities; share repurchase activities; and any other activity which may be considered high risk or which could have a material effect on the Company's financial position or results of operations, and subject to receiving specific assignments from the Board. The Finance Committee, is currently comprised of independent directors Gregg W. Robertson (Chair) and Michael A. Davis, but did not hold any meetings during fiscal year 2010.

Table of Contents**DIRECTOR COMPENSATION**

The following table sets forth information regarding the compensation of the Company's directors for fiscal year end 2010:

| <b>Name</b>            | <b>Fees Earned or<br/>Paid in Cash<br/>(\$)</b> | <b>Stock<br/>Awards (\$)<br/>(1)</b> | <b>Option<br/>Awards (\$)</b> | <b>All Other<br/>Compensation<br/>(\$)</b> | <b>Total (\$)</b> |
|------------------------|---|--------------------------------------|-------------------------------|--|-------------------|
| Gerald R. Cysewski (2) |   |                                      | \$ 1,705                      | \$ 146,904                                 | \$ 148,609        |
| Michael A. Davis       | \$ 17,550                                       | \$ 4,261                             |                               |  | \$ 21,811         |
| Gregg W. Robertson     | \$ 34,225                                       | \$ 7,711                             |                               |  | \$ 41,936         |
| David I. Rosenthal (3) | \$ 13,450                                       | \$ 4,261                             |                               | \$ 21,232                                  | \$ 38,943         |
| John T. Waldron        | \$ 20,900                                       | \$ 4,261                             |                               |  | \$ 25,161         |

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- (1) Stock awards under the Directors 2004 Stock Plan are discussed below.
- (2) Dr. Cysewski is an inside director and therefore, receives no compensation as a director. See EXECUTIVE COMPENSATION AND OTHER INFORMATION on page 18.
- (3) All other Compensation is related to Mr. Rosenthal's appointment as Interim President and Chief Executive Officer effective February 27, 2010. See EXECUTIVE COMPENSATION AND OTHER INFORMATION on page 18.

At the 2004 Annual Meeting of Stockholders, the stockholders of the Company approved the 2004 Independent Director Stock Option and Stock Grant Plan (the "2004 Plan"). Under the 2004 Plan each independent director receives on first election, pursuant to the 2004 Plan, a 10-year option to purchase 1,000 shares of the Company's Common Stock, and thereafter a grant of 875 shares of Common Stock each year that the Independent director is elected to the Board. Such grants and options are non-transferable and non-exercisable for six months following the date of grant. Under the 2004 Plan 75,000 shares (adjusted for a 2006 reverse stock split) were reserved for issuance or option grant through the date of the 2014 Annual Stockholders' Meeting. On March 24, 2010, the Independent directors approved a revision to the 2004 Plan to provide for the grant of 2,000 shares of Common Stock each year that an independent director is elected to the Board and 4,000 for the director serving as Chairman of the Board. The modification was effective for one-half of the current year.

In addition, each independent director receives an annual fee of \$6,000 for participation on the Board (\$10,000 - Chairman) and \$2,500 per Board meeting attended in person (\$4,000 - Chairman), and is also reimbursed for out-of-pocket costs incurred in connection with attendance at such meetings. Each independent director receives \$500 for participation in telephonic meetings (\$1,000 - Chairman). An independent director who serves as a member of any Board committee receives an annual fee of \$1,500 and an Independent Director who serves as chairperson of a Board committee is entitled to additional compensation as follows: 1) Audit Committee Chairperson \$4,000; 2) Compensation and Stock Option Committee Chairperson \$2,500; 3) Nominating and Corporate Governance Committee \$2,500; and 4) Finance Committee Chairperson \$4,000.

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**PROPOSAL TWO:**

**Adoption of Amended and Restated Articles of Incorporation**

The Board of Directors reviewed the existing Restated Articles of Incorporation and subsequent amendments, copies of which are available on the Company's website at [www.cyanotech.com](http://www.cyanotech.com) under the tab Governance Documents. The Company was incorporated in 1983. Many provisions of the existing Restated Articles of Incorporation and subsequent amendments are outdated or unnecessary, while others cover expired rights or authorizations, such as the rights of previous series of preferred stock that are no longer issued or outstanding. Some of those existing provisions may be confusing or create ambiguity. Other provisions, such as requirements to call a stockholders meeting or a board of directors meeting, are already covered by the Company's existing Bylaws and/or the Corporate Code of the State of Nevada, the Company's state of incorporation, and do not need to be duplicated in the Articles of Incorporation. Articles of incorporation generally cannot be amended except by an affirmative vote of stockholders, such as is required for this Proposal Two. Amendments to bylaws can be approved either by the affirmative vote of the members of the board of directors, or by stockholders. Therefore, bylaw changes are more easily and more quickly accomplished than the procedures required for changes to articles of incorporation. The Nevada Corporate Code and current standard forms for incorporation in Nevada supplied by the Secretary of State require only basic provisions on one or two pages because most substantive and procedural provisions are contained in Nevada's Corporate Code or are permitted to be covered by a corporation's bylaws. The proposed Amended and Restated Articles

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of Incorporation are intended to be consistent with the requirements of the Nevada Corporate Code and the Company's Bylaws and to provide greater clarity for the Company, its Board of Directors and its stockholders. The Board of Directors believes that Proposal Two is in the best interest of the Company and, therefore, recommends that the Amended and Restated Articles of Incorporation attached hereto as Appendix A be adopted by stockholders.

Examples of proposed changes include:

Article II PURPOSE. In place of the original eleven purposes listed in the existing Restated Articles of Incorporation, Appendix A simply provides: The nature of the business and purposes to be conducted or promoted by the corporation is to engage in any lawful act or activity.

Article III STOCK. This Article clarifies the current authorized stock of the Company, taking into consideration prior stock splits, redeemed or converted preferred stock, and stock issued under stockholder approved stock option and other share-based rights plans, as well as the power and authority of the Board of Directors to issue authorized, but unissued shares, and to determine the terms and conditions of any issuance or plan or agreement to issue stock, including the classes, series, rights, voting power and preferences of such stock.

Article IV BOARD OF DIRECTORS. This provision changes the maximum number of directors from twenty-five to eleven, and the minimum number from three to one, subject to the Company's Bylaws which permit the Board to change the number of directors within those parameters.

Article VI AMENDMENT, and Article VII BYLAWS. These provisions simply require compliance with the Company's Bylaws unless the Bylaws conflict with the Articles of Incorporation or the laws of the State of Nevada.

Article VIII LIABILITY. This provision only corrects typographical or grammatical errors.

Article IX INDEMNIFICATION. This provision mirrors an identical provision in the Bylaws, but adds a clause making ineffective any action to repeal or restrict rights of indemnity for actions or inactions occurring prior to the repeal or restriction of such rights of indemnity as to persons who have ceased to be a director, officer, employee or agent of the corporation. While this provision could extend the period of potential liability of the corporation, this provision could enable the corporation to attract and retain more qualified persons to be directors, officers, employees and agents.

**Required Vote**

The proposal will be approved if a quorum is present and the number of votes cast in favor equals fifty (50%) percent of the issued and outstanding stock of the Company.

**The Board of Directors unanimously recommends a vote FOR adoption of the Amended and Restated Articles of Incorporation.**

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**PROPOSAL THREE:**

**Ratification of Selection of Independent Registered Public Accounting Firm**

The firm of Grant Thornton LLP has served as the Company's independent registered public accounting firm for the past fiscal year. The Audit Committee has selected, and the Board of Directors has approved, the firm to continue in this capacity for the current fiscal year ending March 31, 2011. A representative of Grant Thornton LLP is expected to attend the annual meeting with the opportunity to make a statement and to respond to appropriate questions from stockholders present at the meeting. Although it is not required to do so, the Company wishes to provide stockholders with the opportunity to indicate their approval of the selection of the independent registered public accounting firm and accordingly is submitting a proposal to ratify the selection of Grant Thornton LLP.

On July 10, 2008, KPMG LLP ( "KPMG" ) was notified on behalf of the Audit Committee and the Board of Directors of Company that KPMG was dismissed as the Company's principal auditor (independent registered public accounting firm). The termination was approved by the Company's Audit Committee.

The audit reports of KPMG on the consolidated financial statements of the Company as of and for the year ended March 31, 2008 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.



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During the Company's three most recent fiscal years ended March 31, 2010, 2009 and 2008, the Company did not have any disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of KPMG, would have caused it to make reference to the subject matter of the disagreements in connection with its report. Also during this period, there have been no reportable events as that term is described in Item 304(a)(1)(v) of Regulation S-K, except that KPMG advised the Company of the following material weaknesses:

- A material weakness related to controls around the Company's inventory process as of March 31, 2008, and
- The Company did not have adequately trained internal accounting resources as of March 31, 2008. The Audit Committee discussed the reportable events with KPMG. The Company authorized KPMG to respond fully to the inquiries of the successor accountant concerning the subject matter of the reportable events.

On April 3, 2008 the Audit Committee issued a request for proposal to determine the Company's principal auditor for the year ending March 31, 2009. As a result of this process, the Audit Committee decided to select Grant Thornton LLP (Grant Thornton) as the Company's principal auditor for the year ending March 31, 2009, subject to Grant Thornton's customary client acceptance procedures. On July 22, 2008, the Audit Committee engaged Grant Thornton to become the Company's auditor (independent registered public accounting firm).

The Company did not engage Grant Thornton in any prior consultations during the Company's fiscal year ended March 31, 2008, or the subsequent period through the date of the filing of a current report on Form 8-K dated July 10, 2008, regarding either: (a) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements; or (b) any matter that was the subject of either a disagreement or a reportable event (as defined in Item 304(a)(1)(v), respectively, of Regulation S-K). The Audit Committee then selected, and the Board of Directors approved, Grant Thornton as the independent registered public accounting firm for the Company for the fiscal year ending March 31, 2009.

***Required Vote***

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

**The Board of Directors unanimously recommends that stockholders vote FOR ratification of Grant Thornton LLP to serve as the Company's independent registered public accounting firm for the year ending March 31, 2011.**

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Table of Contents**COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT**

Section 16(a) of the Act of 1934, 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 by Insiders 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, 2010, except that Forms 3, 4 and 5 were not timely filed: (a) by Gerald R. Cysweski for stock options granted on March 31, 2009 and on April 30, 2009; (b) by Robert J. Capelli for stock options granted on March 31, 2009 and April 30, 2009; (c) by Glenn Jensen for stock options granted on March 31, 2009 and April 30, 2009; (d) by David I. Rosenthal for stock options granted on March 24, 2010; (e) by Michael A. Davis for stock options granted on March 24, 2010; (f) by John T. Waldron for stock options granted on March 24, 2010; and (g) by Gregg Robertson for his initial beneficial ownership report due upon his original election to the Board and for stock options granted on March 24, 2010. All such reports were subsequently filed on the correct form and the Company believes that all directors and officers are in current compliance with their respective beneficial ownership reports.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT and RELATED STOCKHOLDER MATTERS**

The following tables set forth information regarding the beneficial ownership of the Company's Common Stock as of July 13, 2010 by (i) each person who is known by the Company to own beneficially more than 5% of the outstanding shares of the Common Stock of the Company and Common Stock equivalents, (ii) each of the Company's executive officers named in the Summary Compensation Table appearing herein, (iii) each director and (iv) all directors and executive officers named in the Summary Compensation Table appearing herein as a group. The following tables set forth what such persons' beneficial security ownership position would be assuming the exercise of all outstanding stock options and warrants, exercisable on July 13, 2010 or within 60 days of such date. All shares shown are subject to the named person's sole voting and investment power except as noted.

**Security Ownership of Certain Beneficial Owners**

| Name   | Shares<br>Beneficially<br>Owned | Approximate<br>Percent<br>Owned |
|--|---------------------------------|---------------------------------|
| Michael A. Davis   | 924,320(1)(2)                   | 17.6%                           |
| VitaeLab AS, Helse AS, Telecom AS, Andres Kongsgaard Flaaten, Kenneth F. Bern, as a group ( VitaeLab Group ) | 507,666(3)                      | 9.7%                            |

(1) Includes 84,563 shares over which Mr. Davis holds sole voting and investment power. Also includes 787,019 shares over which Mr. Davis holds shared voting and investment power, including 31,250 shares held by Mr. Davis' spouse, Janet J. Johnstone ( Johnstone ); 175,000 shares held by the Skywords Family Foundation, a charitable foundation of which Mr. Davis and Johnstone are the sole directors; 100,000 shares held by trusts for the benefit of Mr. Davis' and Johnstone's minor children for which Mr. Davis is a co-trustee; and 480,769 shares held by the Michael Arlen Davis Charitable Lead Annuity Trust of which Mr. Davis is a co-trustee.

(2) Includes options to purchase 750 shares of Common Stock held by a trust by the Michael Davis 1993 Family Trust, of which Mr. Davis is a trustee.

(3) Per Schedule 13D/A dated June 11, 2008, jointly filed by the reporting persons, due to certain affiliations and relationships among the reporting persons, such reporting persons may be deemed to beneficially own the same securities acquired by one of the reporting persons. Address is c/o VitaeLab AS, Enebakkveien, 117, 0680 Oslo, Norway.

Table of Contents**Security Ownership of Management**

| <b>Name</b>   | <b>Shares<br/>Beneficially<br/>Owned</b> | <b>Ref</b> | <b>Approximate<br/>Percent<br/>Owned</b> |
|---|--|------------|--|
| Robert J. Capelli(1)  | 1,600                                    | (2)        | *  |
| Gerald R. Cysewski(1)                                       | 115,502                                  | (3)        | 2.2%                                     |
| Michael A. Davis(1)   | 924,320                                  | (4)(5)     | 17.6%                                    |
| Andrew H. Jacobson(1)                                       | 131,056                                  | (6)        | 2.5%                                     |
| Glenn D. Jensen(1)  | 12,308                                   | (7)        | *  |
| Gregg W. Robertson(1)                                       | 7,438                                    | (8)        | *  |
| David I. Rosenthal(1)                                       | 7,313                                    | (9)        | *  |
| Deanna L. Spooner (1)                                       | 6,500                                    | (10)       | *  |
| John T. Waldron(1)  | 17,551                                   |            | *  |
| All directors and executive officers as a group (9 persons) | 1,221,838                                | (11)       | 23.3%                                    |

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\* 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 to purchase 1,600 shares of Common Stock.

(3) Includes options to purchase 1,600 shares of Common Stock.

(4) Includes 84,563 shares over which Mr. Davis holds sole voting and investment power. Also includes 787,019 shares over which Mr. Davis holds shared voting and investment power, including 31,250 shares held by Mr. Davis spouse, Janet J. Johnstone ( Johnstone ); 175,000 shares held by the Skywords Family Foundation, a charitable foundation of which Mr. Davis and Johnstone are the sole directors; 100,000 shares held by trusts for the benefit of Mr. Davis and Johnstone s minor children for which Mr. Davis is a co-trustee; and 480,769 shares held by the Michael Arlen Davis Charitable Lead Annuity Trust of which Mr. Davis is a co-trustee.

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

(6) Represents options to purchase 131,056 shares of Common Stock.

- (7) Includes options to purchase 1,600 shares of Common Stock.
- (8) Includes options to purchase 1,000 shares of Common Stock.
- (9) Includes options to purchase 750 shares of Common Stock.
- (10) Includes options to purchase 6,500 shares of Common Stock.
- (11) Includes options to purchase 144,856 shares of Common Stock.

#### **Certain Relationships and Related Transactions**

The Company entered into a contract in fiscal year 2009 with the VitaeLab Group, a related party that sells products which contain Cyanotech Corporation products. The VitaeLab Group is a 9.7% Cyanotech stockholder which has earned rebates of approximately \$92,000 and \$225,000 on product purchases from the Company in fiscal years 2010 and 2009, respectively. This contract has been extended through March 31, 2011. The Company believes that this type of contract and its terms are in the ordinary course of business in this industry. The VitaeLab Group was paid an additional \$52,000 in fiscal year 2009 for marketing services under a contract which expired in 2008.

#### **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.

Table of Contents**EXECUTIVE OFFICERS OF THE REGISTRANT**

The executive officers are elected by and serve at the pleasure of the Board. The executive officers and other key employees of Cyanotech as of March 31, 2010 are as follows:

| <b>Name</b>               | <b>Age</b> | <b>Position</b>   |
|---------------------------|------------|---|
| David I. Rosenthal        | 55         | Interim President and Chief Executive Officer since February 27, 2010                       |
| Deanna L. Spooner         | 58         | Chief Financial Officer, Vice President Finance and Administration, Secretary and Treasurer |
| Gerald R. Cysewski, Ph.D. | 61         | Executive Vice President and Chief Scientific Officer and Co-founder                        |
| Glenn D. Jensen           | 52         | Vice President Operations   |
| Robert J. Capelli         | 50         | Vice President Sales and Marketing  |

*David I. Rosenthal* Mr. Rosenthal is serving as Interim President and Chief Executive Officer since his appointment by the Board on February 27, 2010. He has been a member of the Board of Directors of the Company since November 2000. From April 2008 to March 2009, Mr. Rosenthal was Chief Financial Officer at Hickory Farms, Inc., a provider of food and gift products. Hickory Farms, Inc. is a private company located in Maumee, Ohio. Previously, Mr. Rosenthal was the Chief Financial Officer of Sanz, Inc, a publicly traded company located in Englewood, Colorado that was a value-added reseller for data storage solutions. From 2003 to May of 2006 he was the Executive Vice President and Chief Financial Officer for SpectraLink Corporation, a publicly traded company located in Boulder Colorado that designed, manufactured and marketed 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 is a C.P.A. and holds a B.S. degree in Accounting from the University of California at Berkeley and a M.B.A degree from California State University, East Bay.

*Deanna L. Spooner* Ms. Spooner has served as Chief Financial Officer, Vice President Finance & Administration, Secretary and Treasurer since November 14, 2008. She previously served as the Controller of the Company from January 2008 to November 2008. She has over 25 years of accounting and financial management experience in both the public and private sector; for established conglomerates and emerging businesses; and privately owned and for publicly traded companies in varying industries. Since leaving ADcom Information Services, Inc., a cable television ratings company in Deerfield Beach, FL in 2002 where she served as Chief Financial Officer and Chief Operating Officer, Ms. Spooner has worked in Hawaii and California providing financial consulting services to varied commercial enterprises and private individuals. Ms. Spooner is a C.P.A. and holds a B.A. degree in Business Administration/Accounting from University of Washington.

*Gerald R. Cysewski, Ph. D.* Dr. Cysewski, Executive Vice President and Chief Scientific Officer, co-founded the Company in 1983 and served as a director of the Company since that time. From 1990 to May 16, 2008 Dr. Cysewski has served as 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.

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

*Robert J. Capelli* Mr. Capelli, has served as Vice President Sales and Marketing since March 2002. He joined the Company in January 2002 as Director of Sales. Prior to joining Cyanotech, Mr. Capelli was Senior Sales Manager for Forecite-The Source, a division of Tree of Life, Inc. Mr. Capelli has over 20 years experience in the natural supplement industry. He is the lead author of the book, *Natural Astaxanthin, King of the Carotenoids* and a co-author of the book, *Spirulina, Nature's SuperFood*, as well as several articles on nutritional products that have appeared in industry trade journals. Mr. Capelli holds a B.A. degree from Rutgers University.



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**COMPENSATION AND STOCK OPTION COMMITTEE REPORT**

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

Compensation and Stock Option Committee of the Board of Directors.

John T. Waldron, Chairman  
Gregg W. Robertson  
Michael A. Davis

***Compensation Discussion and Analysis***

**Who is responsible for determining appropriate executive compensation?**

The Compensation Committee has the responsibility for recommending the total compensation program for the Company and its subsidiaries, subject to the approval of the Board. This included determining compensation for the past fiscal year 2010, as well as for the current fiscal year 2011, for the Cyanotech Corporation Named Executive Officers ( NEO s ) who are the individuals named in the Summary Compensation Table herein: (1) David I. Rosenthal, Interim President and Chief Executive Officer since February 27, 2010; (2) Deanna L. Spooner, Chief Financial Officer, Vice President-Finance and Administration, Secretary and Treasurer of the Company; (3) Gerald R. Cysewski, Ph.D., Executive Vice President and Chief Scientific Officer, (4) Glenn D. Jensen, Vice President-Operations and (5) Robert J. Capelli, Vice President-Sales and Marketing; and (6) Andrew H. Jacobson, President and Chief Executive Officer of the Company until February 27, 2010.

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

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

- The Company pays competitively with comparable small companies with which the Company competes for talent. To ensure that pay is competitive, the Company compares its pay practices with these companies and sets its pay parameters based in part on this review.

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- The Company maintains annual incentive opportunities sufficient to provide motivation to achieve specific operating goals and to generate rewards that bring total compensation to competitive levels.

- The Company provides stock options for executive officers to ensure that they are motivated over the long term to respond to the Company's business challenges.

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

### **What are the compensation programs designed to reward?**

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

- *Company Performance.* The Compensation Committee considers each executive's overall contribution to the Company's long-term and short-term results and projections in relation to the Company goal of achieving sustainable profitability from sales of its products.

- *Individual Performance.* The Company has a small executive team of talented individuals with clear divisions of responsibility for achieving the Company's goals. The Compensation Committee evaluates the Chief Executive Officer as a committee or in conjunction with the other independent members of the Board of Directors (as determined by the full Board). That evaluation entails a review of the Chief Executive Officer's Letter Agreement and his performance and progress towards achieving sustainable profitability through improved long-term and short-term results attributable directly and indirectly to his efforts. The Compensation Committee or the full Board (excluding the Chief Executive Officer) acting with the Committee or

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upon its recommendations also considers relative shareholder return over the same period and chief executive compensation for similar-sized companies with similar results within the relevant geographic and industry area.

For other NEOs, the Compensation Committee reviews and considers whether to approved a performance assessment and base salary recommendation from the Chief Executive Officer. The performance evaluations of these executives are based on an the Company's success in achieving short-term and long-term results and projections in relation to the Company goal of achieving sustainable profitability from sales of its products; in addition to performance toward specific departmental goals established annually and approved by the Compensation Committee

**What are the elements of executive compensation?**

The elements of the Company's executive compensation include:

- Base salary and bonus, if awarded
- Incentive stock option grants
- Commission component for Vice President-Sales

**How is base salary determined?**

The base salaries of the executive officers are determined initially on the basis of one or more salary surveys conducted by third parties as well as research conducted by the Company's Manager of Human Resources of local and national companies from public information such as filings with the SEC. Based on such surveys, the executive officers' salaries are set within the ranges of the surveys targeted at the median; the exact level is determined after the Committee considers the experience and capability of the executive officer, the level of responsibility and the needs of the Company.

**What were the base salary increases for fiscal year 2010?**

Effective April 1, 2009, the following base salary increases were approved by the Compensation Committee subject to approval, which was granted, by the Company's senior debt holder: Gerald R. Cysewski, Ph.D., Executive Vice President and Chief Scientific Officer increased to \$135,000 per year; Glenn D. Jensen, Vice President Operations increased to \$110,000 per year; and Robert J. Capelli, Vice President Sales & Marketing increased to \$106,700 per year.

**Are bonuses paid to executive officers?**

The Committee believes that, as a general rule, annual compensation in excess of base salaries should be dependent on the employee's performance and the Company's performance, and should be awarded based on performance reviews and recommendations of the Chief Executive Officer to the Committee and in the discretion of the Board. Accordingly, each fiscal year, the Committee reviews and approves a cash incentive bonus plan designed to motivate executive officer and key personnel to achieve the financial and operational objectives of the Company.

The financial goals are 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, financial targets for key financial performance indicators such as Net Income, Gross Margin and Net Income are established.

Additionally, specific performance measures are established in areas of strategic planning, leadership, and operations as appropriate to the executive's area of management responsibility. Such goals support and compliment the financial goals of the Company and allow executives to achieve meaningful results even when the Company's overall profitability is challenged.

As a result of such performance-based criteria, executive compensation, and the proportion of each executive's total cash compensation that is represented by incentive or bonus income, may increase in those years in which the Company achieves the anticipated level of growth and profitability. On the other hand, in years in which the Company experiences less than anticipated growth, bonuses and total executive compensation should be lower or not awarded and total executive compensation should consequently be lower.

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As approved under the terms and conditions of the Company's agreement with its senior debt holder, and as reported herein, the Company's Chief Financial Officer and Executive Vice President and Chief Scientific Officer were each awarded a bonus of \$9,500; Vice President Operations was awarded a bonus of \$10,000; and Vice President Sales and Marketing was awarded a bonus of \$8,500 in November 2009.

**What is the Company's incentive stock option program?**

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

**How does the Company award stock option grants?**

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

**What perquisites and other personal benefits do executive officers have?**

None

**Do executive officers have change-in-control agreements?**

Provisions are contained in the 2005 Stock Option Plan concerning acceleration of stock options when a Change in Control or a Corporate Transaction, as defined in such Plan, occurs unless the outstanding options are assumed or replaced by the successor corporation with comparable, equalized options or a cash incentive program in accordance with the terms of the 2005 Stock Option Plan.

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

The compensation for Mr. Rosenthal, the Company's Interim Chief Executive Officer was determined by the Committee and was set forth in an Independent Consulting Agreement effective February 27, 2010 which incorporates terms outlined in a CEO Transition Plan. In consideration for the services outlined in the Plan, Mr. Rosenthal receives \$23,000 per month. The Committee evaluated the indefinite nature of the term of the agreement, Mr. Rosenthal's knowledge of the Company as a long-term director of the Company and his professional expertise in establishing the monthly compensation.

The compensation payable to Mr. Jacobson, the Company's former Chief Executive Officer was determined by the Committee and was set forth in a Letter Agreement stating terms of employment dated May 16, 2008. 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 of \$335,000 annually, plus eligibility for performance-based bonuses in fiscal years 2010 and 2011. Additionally, stock options to purchase shares equivalent to approximately 7.5% of the Company's outstanding common stock were also granted pursuant to the Letter Agreement. Mr. Jacobson terminated employment on March 28, 2010. Under the terms of his Letter Agreement he received payment of one year's base salary following such termination. Stock options to purchase shares equivalent to approximately 5% of the Company's outstanding common stock were not vested at that date and were cancelled.

*The material in the heading "Compensation Discussion and Analysis" and the Report of the Audit Committee 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.*

Table of Contents**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, 2010, 2009, and 2008.

**SUMMARY COMPENSATION**

| Name and Principal Position   | Fiscal Year | ANNUAL COMPENSATION |            |                    |                | Total (\$) |
|---|-------------|---------------------|------------|--------------------|----------------|------------|
|   |             | Salary (\$)         | Bonus (\$) | Option Awards\$(1) | All Other (\$) |            |
| <b>David I. Rosenthal</b> (2)<br>Interim President and Chief Executive Officer                          | 2010        | 21,232              |            |                    | 17,711         | 38,843     |
|   | 2009        |                     |            |                    | 9,113          | 9,113      |
|   | 2008        |                     |            |                    | 6,276          | 6,276      |
| <b>Andrew H. Jacobson,</b><br>President and Chief Executive Officer(3)                                  | 2010        | 710,507             |            | (95,101)           |                | 615,406    |
|   | 2009        | 293,125             |            | 114,364            |                | 407,489    |
|   | 2008        |                     |            |                    |                |            |
| <b>Deanna L. Spooner</b><br>Chief Financial Officer and Vice President of Finance and Administration(4) | 2010        | 150,000             | 9,500      | 8,120              |                | 167,620    |
|   | 2009        | 115,096             |            | 2,758              |                | 117,854    |
|   | 2008        | 15,833              |            |                    |                | 15,833     |
| <b>Gerald R. Cysewski,</b><br>Executive Vice President and Chief Scientific Officer(5)                  | 2010        | 137,404             | 9,500      | 1,705              |                | 148,609    |
|   | 2009        | 130,000             | 5,000      |                    |                | 135,225    |
|   | 2008        | 130,000             |            |                    |                | 130,000    |
| <b>Robert J. Capelli</b><br>Vice President of Sales   | 2010        | 146,445             | 9,500      | 1,705              |                | 157,649    |
|   | 2009        | 126,979             | 5,000      | 225                |                | 132,204    |
|   | 2008        | 103,814             |            |                    |                | 103,814    |
| <b>Glenn D. Jenson</b><br>Vice President of Operations  | 2010        | 110,431             | 10,000     | 1,705              |                | 122,136    |
|   | 2009        | 97,000              | 5,000      | 225                |                | 102,225    |
|   | 2008        | 100,091             |            |                    |                | 100,091    |

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- (1) In connection with equity-classified stock option awards, which the Company reports in accordance with Generally Accepted Accounting Principles ( "GAAP" ), compensation expense is recorded in the Company's financial statements for fiscal years 2010 & 2009.
- (2) Mr. Rosenthal was appointed to these positions effective February 27, 2010. All other compensation represents Director fees and the value of Common Shares granted to Mr. Rosenthal as a director respectively as follows: 2010 \$17,900 and \$4,261, 2009 \$7,258 and \$1,855, and 2008 \$5,550 and \$726.
- (3) Mr. Jacobson was appointed to these positions effective May 16, 2008 and terminated his employment effective March 28, 2010. Pursuant to the terms of Mr. Jacobson's Letter of Employment he received severance pay equal to one year's salary (\$335,000) upon termination. In addition, non-vested stock options to purchase 262,112 shares of common stock of the Company were cancelled. This resulted in negative stock option compensation in accordance with GAAP.

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- (4) Deanna L. Spooner was appointed to these positions effective November 14, 2008.
- (5) Dr. Cysewski resigned as President and Chief Executive Officer effective May 16, 2008. He remains a Director of Cyanotech and serves as Executive Vice President and Chief Scientific Officer.



Table of Contents**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, 2010, including the 2005 Stock Option Plan and 2004 Non-Employee Director Stock Option and Stock Grant Plan. The 2005 Stock Plan was approved by the stockholders on August 22, 2005, replacing the Company's terminated 1995 Stock Plan, and amended by stockholders on September 9, 2008 to increase to 700,000 the total number of shares authorized for issuance under the Plan.

| <b>Plan Category</b>                                     | <b>Number of Securities to be Issued upon Exercise of Outstanding Options and Rights (a)(#)</b> | <b>Weighted Average Exercise Price of Outstanding Options (b)(\$)</b> | <b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in Column (a)(c)(#)</b> |
|--|---|---|--|
| Equity Compensation Plans Approved by Stockholders       | 333,606   | \$ 1.69   | 268,157  |
| Equity Compensation Plan Not Approved by Stockholders(1) | 5,000   | \$ 10.20  |  |
| <b>Total</b>   | <b>338,606</b>  |   | <b>268,157</b>   |

(1) Warrants issued in conjunction with Term Loan in April 2000, expire April 2011.

**OPTION GRANTS IN FISCAL YEAR 2010**

The Company granted options to purchase 113,000 Common Shares under the 2005 Stock Option Plan in fiscal year 2010. No options were granted under the 2004 Independent Director Stock Option and Restricted Stock Grant Plan in fiscal year 2010.

**FISCAL YEAR-END OPTION VALUES**

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

| <b>Name</b>            | <b>Shares Acquired on Exercise (#)</b> | <b>Value Realized (\$)</b> | <b>Number of Shares of Common Stock Underlying Unexercised Options at FY-End (#)</b> |                      | <b>Value of Unexercised In-The-Money Options at FY-End \$(1)</b> |                      |
|------------------------|--|----------------------------|--|----------------------|--|----------------------|
|                        |  |                            | <b>Exercisable</b>   | <b>Unexercisable</b> | <b>Exercisable</b>   | <b>Unexercisable</b> |
| David I. Rosenthal     |  |                            |  |                      |  |                      |
| Andrew H. Jacobson (2) |  | \$                         | 131,056  |                      | \$ 254,249   | \$                   |
| Deanna L. Spooner(3)   |  | \$                         | 5,500  | 54,500               | \$ 11,775  | \$ 88,475            |

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|                       |    |       |        |    |       |    |        |
|-----------------------|----|-------|--------|----|-------|----|--------|
| Gerald R. Cysewski(4) | \$ | 1,600 | 10,400 | \$ | 2,320 | \$ | 13,880 |
| Robert J. Capelli(4)  | \$ | 1,200 | 10,400 | \$ | 2,320 | \$ | 13,880 |
| Glenn D. Jenson(4)    | \$ | 1,200 | 10,400 | \$ | 2,320 | \$ | 13,880 |

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(1) Refers to the market value of shares covered by in-the-money options on March 31, 2010 which was \$3.35, less the option exercise price. Options are not in-the-money if the market value of the shares covered thereby is less than the option exercise price.

(2) Options to purchase 131,056 shares granted on May 16, 2008 and vested as to 100% on May 16, 2009, were granted under the 2005 Stock Plan.

(3) Options to purchase 5,000 shares granted on February 22, 2008 and 50,000 shares granted on December 4, 2008, all under the 2005 Stock Plan of which 5,500 were exercisable at March 31, 2010. The options vest and become exercisable over 4 years of continuing employment in increasing annual installments (10%, 20%, 30%, 40%) beginning one year after the grant date.

(4) Options to purchase 2,000 shares were granted on February 22, 2008 and 10,000 shares granted on April 30, 2009, all under the 2005 Stock Plan of which 600 were exercisable at March 31, 2010. The options vest and become exercisable over 4 years of continuing employment in increasing annual installments (10%, 20%, 30%, 40%) beginning one year after the grant date.

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**Report of the Audit Committee of the Board of Directors**

The Audit Committee, which met four (4) times in fiscal 2010, reviewed and discussed the Company's audited financial statements with management. The Audit Committee discussed with Grant Thornton LLP, the Company's independent registered public accounting firm (Grant Thornton), the matters required to be discussed by Statement of Auditing Standards No. 114, 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 Grant Thornton required by Independence Standards Board Standard No. 1, which relates to the independent registered public accounting firm's 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 to the 2004 Proxy Statement and is available on the Company's website at [www.cyanotech.com](http://www.cyanotech.com). Pursuant to such Charter, the Audit Committee has the following primary responsibilities:

- 1) Review the performance of the independent registered public accounting firm and make recommendations to the Board of Directors regarding the appointment or termination of the independent registered public accounting firm;
- 2) Confer annually with the independent registered public accounting firm concerning the scope of its examinations of the books and records of the Company and its subsidiaries; reviewing and approving the independent registered public accounting firm's annual engagement letter, and authorizing the independent registered public accounting firm 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 registered public accounting firm;
- 4) Review the Company's audited financial statements and the independent registered public accounting firm's 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; and
- 5) Review the adequacy of the Company's systems of internal controls.

The firm of Grant Thornton, an independent registered public accounting firm, served as the Company's independent registered public accounting firm for the fiscal years ended March 31, 2010 and 2009. As stated in Proposal Two, the Audit Committee has selected and the Board has approved Grant Thornton to serve as the Company's independent registered public accounting firm for the fiscal year ended March 31, 2011.

Audit services provided by Grant Thornton 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 Grant Thornton were reviewed and considered for independence by the Audit Committee. In addition, the Audit Committee (i) discussed with Grant Thornton their qualification of the partners and managers assigned to the Company's audit, (ii) reviewed with Grant Thornton 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 Grant Thornton 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 on Form 10-K for the fiscal year ended March 31, 2010.

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

Gregg W. Robertson, Chairman  
John T. Waldron  
Michael A. Davis

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**Independent Registered Public Accounting Firm's Fees**

**Audit Fees**

The aggregate fees billed by Grant Thornton, our independent registered public accounting firm, 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, 2010 and 2009 were \$273,000 and \$356,000, respectively.

**Audit Related Fees**

There were no audit related fees billed by Grant Thornton for the fiscal years ended March 31, 2010 and 2009.

**Tax Fees**

The aggregate fees billed by Grant Thornton for tax services rendered to the Company, for the fiscal year ended March 31, 2010 and 2009, were \$3,000 and \$5,000, respectively.

**All Other Fees**

There were no other fees billed by Grant Thornton for the fiscal years ended March 31, 2010 and 2009.

The Audit Committee has considered and does not believe the provision of all other services by the Company's registered public accounting firm is incompatible with maintaining Grant Thornton's independence.

A representative of Grant Thornton is expected to attend the 2010 Annual Meeting of Stockholders, and will have an opportunity to make a statement and to respond to appropriate questions from Stockholders.

**STOCKHOLDER PROPOSALS AND NOMINATIONS**

Stockholders who wish to present proposals in accordance with Rule 14a-8 of Regulation 14A under the Securities Exchange Act of 1934 which they desire to be considered at the 2011 Annual Meeting of Stockholders must timely submit such proposals in order that they will be received by the Company no later than March 25, 2011. Any such 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. However, submission of a proposal does not assure the proponent that the proposal will be included in the Company's 2011 proxy materials because all applicable rules of the SEC must be followed by both the proponent and the Company.

In addition, the Company's Bylaws provide a procedure for stockholders to propose a matter (other than a matter brought pursuant to SEC Rule 14a-8) at a meeting of stockholders, or to nominate a person or persons as a director. Procedurally, eligible stockholders must submit for actual receipt by the Company, Attention Corporate Secretary, at its principal executive office, any proposal or nomination within 120-150 days prior to the anniversary date of the prior year's annual meeting of stockholders. In the case of the Company's 2011 Annual Meeting, such proposals or nominations by eligible stockholders pursuant to our Bylaws (and not pursuant to SEC Rule 14a-8) must be received no later than May 4, 2011 and no earlier than April 4, 2011, unless our Annual Meeting date occurs more than 30 days before or after September 1, 2011. In that case, we must receive proposals not earlier than the close of business 120 days prior to the date of the annual meeting and not later than 90 days prior to the date of the annual meeting, or, if the first public announcement of the date of such annual meeting is less than 100 days prior to the date of such annual meeting, the tenth day following the day on which public announcement of the date of such meeting is first made by the Company.

To be in proper form, a stockholder's notice must include the information concerning the proposal or nominee, as well as the stockholder and possibly affiliated persons, specified in our Bylaws. A stockholder who wishes to consider submitting a proposal or nomination is encouraged to seek independent counsel about our Bylaw requirements and procedures, as well as SEC requirements and procedures. The Company will not consider any proposal or nomination that does not meet all requirements of our Bylaws and of the SEC. The Company also reserves the right to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements.

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**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.

*Cyanotech Corporation's annual report to the SEC on Form 10-K, including financial statements and financial statement schedules, for the most recent fiscal year, accompanies these proxy materials. Additional copies may be obtained by downloading them from the Company's website (www.cyanotech.com), including Exhibits to the Form 10-K. Paper copies of the six (6) Exhibits identified in the Form 10-K, Item 15(b) with an asterisk (\*) will be furnished upon request from persons making a good faith representation that they were a beneficial owner of the Company's securities on July 13, 2010, and upon payment to the Company of its reasonable expenses for furnishing such copies (which will be the lesser of \$60 per set or \$0.68 per page for those requesting less than a full set). Such written requests should be addressed to: Deanna L. Spooner, 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, 2010, 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 or instructions to your broker as to how you want your shares voted as promptly as possible**

By Order of the Board of Directors

/s/ Deanna L. Spooner  
Corporate Secretary

Kailua-Kona, Hawaii  
July 23, 2010

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**APPENDIX A**

AMENDED AND RESTATED ARTICLES OF INCORPORATION

OF

**CYANOTECH CORPORATION**

[September 1, 2010]

**ARTICLE I**

NAME: The name of the corporation is Cyanotech Corporation.

**ARTICLE II**

PURPOSE: The nature of the business or purposes to be conducted or promoted by the corporation is to engage in any lawful act or activity.

**ARTICLE III**

STOCK:

A. General Provisions.

1. Authorized Stock. The total number of shares of all classes of stock that the corporation shall have the authority to issue is twelve million five hundred thousand (12,500,000) shares, consisting of seven million five hundred thousand (7,500,000) shares of common stock, par value \$.02 per share, and five million (5,000,000) shares of special or preferred stock, par value \$.01 per share.

2. Authority of the Board of Directors. The board of directors is authorized to provide for the issuance from time to time of authorized, but unissued shares of stock of the corporation and to determine the respective classes, series, rights and preferences of such stock. When the consideration for such shares has been fully paid, such shares shall be issued in full compliance with the board authorization as duly



authorized, validly issued, fully paid and non-assessable.

3. Pre-Emptive Rights. No holder of shares of any class or series of stock of the corporation shall be entitled to preemptive rights to subscribe to any unissued stock or any other securities of the corporation. Notwithstanding the foregoing, the board of directors may, at its discretion, by resolution determine that any unissued shares of preferred stock of the corporation may be offered for subscription solely to the holders of a particular class or series of stock of the corporation, in such proportions as the board of directors in its discretion may determine.

4. No Cumulative Voting. Cumulative voting in elections of directors and in all other matters brought before stockholders meetings, whether annual or special, shall not be permitted.

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B. Common Stock. The voting power, limitations, restrictions, and relative rights of the common stock are as follows:

1. Voting Power. Each share of common stock shall be entitled to one vote at stockholders' meetings, either in person or by proxy.

2. Dividends. Subject to the prior rights and preferences applicable to any preferred stock of the corporation, holders of shares of common stock shall be entitled to receive dividends, when, as and if declared by the board of directors in its absolute discretion out of assets legally available therefor.

3. Rights in Dissolution and Distributions of Assets. Subject to the prior rights and preferences applicable to any preferred stock of the corporation, holders of shares of common stock shall be entitled to receive distributions of the corporation upon liquidation, dissolution, or winding up of the corporation.

C. Preferred Stock. The board of directors is vested with the authority to provide for the issuance of authorized but unissued shares of preferred stock of the corporation in one or more classes or series, and to prescribe the voting powers, limitations, restrictions, distinguishing designations, rights and preferences, including rights and preferences upon dissolution and distribution of assets, of each such class or series by resolution of the board of directors before the issuance of shares of such class or series, in accordance with these articles of incorporation and subject to any limitations prescribed by law.

**ARTICLE IV**

A. BOARD OF DIRECTORS: The number of members of the board of directors shall be fixed from time to time by the bylaws, and shall consist of not less than one nor more than eleven members. The members of the board of directors shall be elected or appointed at such times, in such manner and for such terms as may be prescribed by the bylaws.

B. RESIGNATION OF DIRECTORS: Any director may resign by filing a written resignation with the secretary of the corporation and upon acceptance thereof by the board of directors, or if the board shall neglect to act upon such resignation within fourteen (14) days after receipt, the resignation shall become effective and the board position shall be deemed vacant.

**ARTICLE V**

DURATION: The duration of the corporation shall be perpetual.

**ARTICLE VI**

AMENDMENT: These articles of incorporation may be amended in any respect amendable under the laws of the State of Nevada at a special or annual meeting of the stockholders that complies with the requirements of the bylaws and the laws of the State of Nevada, by vote in favor of the amendment by at least a majority of the issued and outstanding capital stock of the corporation, or by such greater proportion of the voting power as may be required by law or otherwise by these articles of incorporation.

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**ARTICLE VII**

**BYLAWS:** The board of directors shall have authority to adopt such bylaws, and make amendments to bylaws that have been adopted by the board of directors, as in its judgment may be deemed necessary or advisable for the management and transaction of the business of the corporation, provided that such bylaws are not in conflict with these articles of incorporation or the laws of the State of Nevada.

**ARTICLE VIII**

**LIABILITY:** A director or officer of the corporation shall not be personally liable to the corporation or its stockholders for damages for breach of fiduciary duty as a director or officer, except that this provision does not eliminate or limit the liability of a director or officer for (a) acts or omissions which involve intentional misconduct, fraud, or a knowing violation of law or (b) the making of distributions in violation of Section 78.300 of the Nevada Revised Statutes. If the Nevada Revised Statutes are subsequently amended to authorize corporate action further limiting the personal liability of directors or officers, then the corporation is authorized to take such actions as the board of directors may deem necessary or advisable to further limit the personal liability of directors or officers to the fullest extent permitted by the Nevada Revised Statutes, as so amended. Any repeal or modification of the foregoing by the stockholders of the corporation shall not adversely affect any right or protection of a director or officer of the corporation existing at the time of such repeal or modification.

**ARTICLE IX**

**INDEMNIFICATION:** The indemnification provided for by the bylaws shall continue, with respect to any person covered by such indemnification, after such person has ceased to be a director, officer, employee or agent of the corporation, and shall inure to the benefit of the heirs, executors or administrators of such person; provided, further, that any action to repeal or restrict rights of indemnity for such persons shall be ineffective as to actions or inactions occurring prior to the repeal or restriction of such rights of indemnity.

Using a **black ink** pen, mark your votes with an **X** as shown in this example: x Please do not write outside the designated areas.

**Annual Meeting Proxy Card**

**PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.**

**A Proposals** The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposals 2 and 3.

|                           |            |                 |                       |            |                 |                         |            |                 |
|---------------------------|------------|-----------------|-----------------------|------------|-----------------|-------------------------|------------|-----------------|
| 1. Election of Directors: | <b>For</b> | <b>Withhold</b> |                       | <b>For</b> | <b>Withhold</b> |                         | <b>For</b> | <b>Withhold</b> |
| 01 - Gerald R. Cysewski   | <b>o</b>   | <b>o</b>        | 02 - Michael A. Davis | <b>o</b>   | <b>o</b>        | 03 - Gregg W. Robertson | <b>o</b>   | <b>o</b>        |
| 04 - David I. Rosenthal   | <b>o</b>   | <b>o</b>        | 05 - John T. Waldron  | <b>o</b>   | <b>o</b>        |                         |            |                 |

  

|  |                        |                            |                            |
|--|------------------------|----------------------------|----------------------------|
| 2. To adopt the Amended and Restated Articles of Incorporation.  | <b>For</b><br><b>o</b> | <b>Against</b><br><b>o</b> | <b>Abstain</b><br><b>o</b> |
| 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, 2011. | <b>For</b><br><b>o</b> | <b>Against</b><br><b>o</b> | <b>Abstain</b><br><b>o</b> |
| 4. In their discretion, the proxies are authorized to vote upon such other business as may properly come before this meeting.                              |                        |                            |                            |

**B Authorized Signatures** This section must be completed for your vote to be counted. Date and Sign Below

Please date this proxy and sign it exactly as your name or names appear on your share. If signing as an attorney, executor, administrator, guardian or trustee, please give full title as such. If a corporation, please sign full corporate name by duly authorized officer or officers.

Date (mm/dd/yyyy) Please print date below. Signature 1 Please keep signature within the box. Signature 2 Please keep signature within the box.

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**PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.**

**Proxy CYANOTECH CORPORATION**

**PROXY FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD WEDNESDAY, SEPTEMBER 1, 2010**

**This proxy is solicited on behalf of the Board of Directors**

The undersigned hereby appoints Dan Sprague and Debbie Walch and each of them (with full power to act without the other), as proxies, each having full power to substitute, to represent and to vote, as designated below, all shares of stock of Cyanotech Corporation which the undersigned would be entitled to vote if personally present at the Annual Meeting of the Corporation to be held Wednesday, September 1, 2010, at the Waikoloa Beach Marriott, 69-275 Waikoloa Beach Drive, Waikoloa, Hawaii, USA, 96738 at 3:00 P.M. prevailing local time, and any adjournment thereof, with respect to matters set forth below and described in the Notice of Annual Meeting and Proxy Statement dated July 23, 2010.

All other proxies heretofore given by the undersigned to vote shares of stock of Cyanotech Corporation which the undersigned would be entitled to vote if personally present at the Annual Meeting or any adjournment thereof are hereby expressly revoked. This proxy may be revoked at any time prior to the voting hereof as set forth in the Proxy Statement.

Please sign and date this proxy and return in promptly whether you expect to attend the meeting or not. If you do attend the meeting you may vote in person.

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## Electronic Voting Instructions

**You can vote by Internet or telephone! Available 24 hours a day, 7 days a week!**

Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

**Proxies submitted by the Internet or telephone must be received by 1:00 a.m., Central Time, on September 1, 2010.**

### Vote by Internet

- Log on to the Internet and go to **[www.envisionreports.com/CYAN](http://www.envisionreports.com/CYAN)**
- Follow the steps outlined on the secured website.

### Vote by telephone

- Call toll free 1-800-652-VOTE (8683) within the United States, US territories & Canada any time on a touch tone telephone. There is **NO CHARGE** to you for the call.
- Follow the instructions provided by the recorded message.

Using a **black ink** pen, mark your votes with an **X** as shown in this example: x Please do not write outside the designated areas.



**IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.**

**A Proposals** The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposals 2 and 3.

| 1. Election of Directors: | For                   | Withhold              |                       | For                   | Withhold              |                         | For                   | Withhold              |
|---------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------------|-----------------------|-----------------------|
| 01 - Gerald R. Cysewski   | <input type="radio"/> | <input type="radio"/> | 02 - Michael A. Davis | <input type="radio"/> | <input type="radio"/> | 03 - Gregg W. Robertson | <input type="radio"/> | <input type="radio"/> |
| 04 - David I. Rosenthal   | <input type="radio"/> | <input type="radio"/> | 05 - John T. Waldron  | <input type="radio"/> | <input type="radio"/> |                         |                       |                       |

|   |                                     |   |   |
|---|-------------------------------------|---|---|
| 2. To adopt the Amended and Restated Articles of Incorporation  | <b>For</b><br><input type="radio"/> | <b>Against</b><br><input type="radio"/> | <b>Abstain</b><br><input type="radio"/> |
| 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, 2011 | <b>For</b><br><input type="radio"/> | <b>Against</b><br><input type="radio"/> | <b>Abstain</b><br><input type="radio"/> |
| 4. In their discretion, the proxies are authorized to vote upon such other business as may properly come before this meeting.                             |                                     |   |   |

**B Non-Voting Items**

**Change of Address** Please print new address below.

**C Authorized Signatures** This section must be completed for your vote to be counted. **Date and Sign Below**

Please date this proxy and sign it exactly as your name or names appear on your share. If signing as an attorney, executor, administrator, guardian or trustee, please give full title as such. If a corporation, please sign full corporate name by duly authorized officer or officers.

Date (mm/dd/yyyy) Please print date below.      Signature 1 Please keep signature within the box.      Signature 2 Please keep signature within the box.

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**IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.**

**Proxy   CYANOTECH CORPORATION**

**PROXY FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD WEDNESDAY, SEPTEMBER 1, 2010**

**This proxy is solicited on behalf of the Board of Directors**

The undersigned hereby appoints Dan Sprague and Debbie Walch and each of them (with full power to act without the other), as proxies, each having full power to substitute, to represent and to vote, as designated below, all shares of stock of Cyanotech Corporation which the undersigned would be entitled to vote if personally present at the Annual Meeting of the Corporation to be held Wednesday, September 1, 2010, at the Waikoloa Beach Marriott, 69-275 Waikoloa Beach Drive, Waikoloa, Hawaii, USA, 96738 at 3:00 P.M. prevailing local time, and any adjournment thereof, with respect to matters set forth below and described in the Notice of Annual Meeting and Proxy Statement dated July 23, 2010.

All other proxies heretofore given by the undersigned to vote shares of stock of Cyanotech Corporation which the undersigned would be entitled to vote if personally present at the Annual Meeting or any adjournment thereof are hereby expressly revoked. This proxy may be revoked at any time prior to the voting hereof as set forth in the Proxy Statement.

Please sign and date this proxy and return in promptly whether you expect to attend the meeting or not. If you do attend the meeting you may vote in person.

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