

CYANOTECH CORP
Form 10-K/A
August 27, 2015

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

FORM 10-K/A

AMENDMENT No. 1

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the Fiscal Year Ended March 31, 2015

Commission File Number 0-14602

CYANOTECH CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

91-1206026

(I. R. S. Employer Identification No.)

**73-4460 Queen Kaahumanu Highway, Suite 102,
Kailua-Kona, Hawaii**

(Address of principal executive offices)

96740

(Zip
Code)

Registrant's telephone number, including area code: **(808) 326-1353**

Securities registered pursuant to Section 12(b) of the Act: Name of each exchange on which registered:
None **NASDAQ Capital Market**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.02 par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant on September 30, 2014 was approximately \$20,124,083 based on the closing sale price of the Common Stock on the NASDAQ Capital Market on that date.

Number of shares outstanding of Registrant's Common Stock at August 24, 2015 was 5,565,499.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (this “Amendment”) amends our Annual Report on Form 10-K for the fiscal year ended March 31, 2015, originally filed with the Securities and Exchange Commission on July 15, 2015 (the “Original Filing”). We are filing this Amendment to amend and restate Part III of the Original Filing to include the information required by and not included in Part III of the Original Filing, as we have not filed our definitive proxy statement for an annual meeting of stockholders within 120 days of the end of our fiscal year ended March 31, 2015. In addition, in accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), Item 15 of Part IV of the Form 10-K has been amended to include as exhibits new certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Company’s principal executive officer and principal financial officer, with paragraphs 3, 4 and 5 omitted since no financial statements are contained within this Amendment. This Amendment does not change the previously reported financial statements or any of the other disclosures contained in Part I, Part II or Part IV, other than as described above.

Except as described above, no other changes have been made to the Original Filing. The Original Filing continues to speak as of the date of the Original Filing, and we have not updated the disclosures contained therein to reflect any events which occurred at a date subsequent to the filing of the Original Filing. Accordingly, this Amendment should be read in conjunction with the Original 10-K and the Company’s other filings with the SEC subsequent to the Original Form 10-K.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT, AND CORPORATE GOVERNANCE.

Certain information concerning our directors and executive officers is set forth below.

Name	Title
Brent D. Bailey	President and Chief Executive Officer, and Director
Gerald R. Cysewski, Ph.D.	Executive Vice President and Chief Scientific Officer, and Director
Jolé E. Deal	Chief Financial Officer, Vice President-Finance and Administration, Secretary and Treasurer
Gerry Watts	Chief Operations Officer
James R. Lundeen	Vice President and General Manager, Sales & Marketing
Michael A. Davis	Chairman of the Board
Ralph K. Carlton	Director
Walter B. Menzel	Director
David L. Vied	Director

Brent D. Bailey—63: Mr. Bailey was elected to the Board by the Board of Directors on November 5, 2010, pursuant to a Letter Agreement under which he was designated to become President and Chief Executive Officer on January 11, 2011. Over the prior five years he had formed and expanded his own leadership development and strategic planning consulting firm, following thirty years of experience as an executive. He had served as President and Chief Operating Officer of Pharmavite, a subsidiary of Otsuka Pharmaceutical Co., Ltd., where he built the company into an industry leader and its Nature Made brand into the #1 mass market nutritional supplement brand nationwide. Earlier he was Executive Vice President of Marketing at Del Monte Foods; Senior Vice President & General Manager — Household Division of The Dial Corporation; Executive Vice President of Marketing — Personal Care Division of Weyerhaeuser; Vice President of Sales and Marketing — Van de Kamp’s Frozen Foods Division of Pillsbury; and various marketing positions with Frito-Lay, Procter & Gamble and a health care start-up. Mr. Bailey received a B.A. degree from Claremont McKenna College and an M.B.A. from UCLA — The Anderson School of Management. His extensive management, marketing, strategic planning and implementation skills, as well as his leadership qualities, were critical to the Board’s selection of Mr. Bailey both as a director and as the Company’s principal executive officer.

Gerald R. Cysewski, Ph. D.—66: 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.

Jolé Deal — 56: Ms. Deal is a former CPA with an MBA degree (Pepperdine University) and has over twenty years' experience as a senior financial executive in consumer products manufacturing companies, before which she was employed in public accounting with Touche Ross / Deloitte & Touche for five years. Before joining the Company on August 16, 2011 she served as Chief Financial Officer of PureTek Corporation, a private manufacturer of nutritional supplements, generic pharmaceuticals and beauty care products, based in San Fernando, California, from 2009 until 2011. Previously she was Divisional Vice President and Controller of Pharmavite LLC, a manufacturer/marketer of Nature Made vitamins and dietary supplements, based in Northridge, California (a U.S. subsidiary of Otsuka Pharmaceutical Co., Ltd.), for four years, before which she held Pharmavite positions as Director, Sales and Marketing Finance and Director, Financial Planning and Analysis

Gerard Watts—57: Mr. Watts joined Cyanotech in August 2014 as Chief Operations Officer and brings more than 30 years' food and agribusiness experience. Most recently he advised and guided domestic and international firms with regard to fundamental and strategic issues associated with the global produce business. Previously, he was COO / GM at North Shore Greenhouses, a grower and shipper of living herbs produced in hydroponic greenhouses. From 2008 to 2011, he was President of SunOpta Foods / SunOpta International Fruit Group, a \$175 million vertically integrated manufacturer, distributor and redistributor of fresh fruit. From 2005 to 2008, he was VP, GM – Maui Land and Pineapple Company in Maui, Hawaii, where he directed all business operations for the Pineapple Division; and he capped more than 20 years with Calavo Growers Inc. of Santa Paula, California as VP, North American Operations / VP, GM Calavo de Mexico International.

James R. Lundeen—63: Mr. Lundeen joined Cyanotech in 2012 and is responsible for all consumer retail marketing and sales activity in the United States for the Nutrex Hawaii brand of nutritional supplements. Most recently, he was Vice President, Customer Marketing at Pharmavite. He has a 30-year track record of business building success at Shulton, General Mills, Colgate, Dial and Pharmavite. Mr. Lundeen has a BA in Economics from Northwestern University and an MBA from Harvard Business School.

Michael A. Davis—63: Mr. Davis was appointed to the Board of Directors of the Company in March 2003. He was appointed to serve as Chairman of the Board of Directors on April 13, 2011. Mr. Davis is a Principal at Ebb and Flow Ventures, a private equity firm; President of Skywords Family Foundation and a Director of Canobie Films, Inc. Mr. Davis attended Harvard University. His current beneficial ownership of the Company's outstanding common stock is 19.9%. Mr. Davis' business and investment experiences, as well as his long association with the Company provide the Board with critical perspective on the business issues the Company faces.

Ralph K. Carlton—60: Mr. Carlton was elected to the Board and to its Audit Committee on January 26, 2011. He currently serves as the Co-CEO and Chief Financial Officer of the King Arthur Flour Company, Inc., a marketer of baking flour. He previously served as Chief Financial Officer of Cambrooke Foods, Inc., from 2011 to 2013. Mr. Carlton served as Chief Strategy and Development Officer of DEKA Research and Development from 2006 to 2009. He also served in multiple roles at the Coca-Cola Company, including Vice President, Finance and Strategy, Corporate Innovation and Development from 2003 to 2005; Vice President, Strategy and Planning in 2003 and Senior Vice President, Coca-Cola Ventures from 2001 to 2003. Previously from 1997 to 2000 he served as Senior Vice President, Finance and Administration and Chief Financial Officer of IDEXX Laboratories. Prior to that, he was an investment banker at Donaldson, Lufkin and Jenrette, after serving in that same position at Goldman Sachs. Mr. Carlton holds a B.A. from Dartmouth College and an M.B.A. with distinction from Amos Tuck School of Business Administration at Dartmouth College. His financial and accounting background and consumer and healthcare leadership experiences are critical to the Company's long range goals.

Walter B. Menzel—68: Mr. Menzel was elected to the Board of Directors of the Company in August 2013. Mr. Menzel is the President of the WM Group, a contract provider of management, marketing, and creative services for established and entrepreneurial enterprises and organizations. In addition, he is CEO of the Peter Michael Foundation, an underwriter of cancer research at leading medical centers. He is also Co-Founder of Prostate Management Diagnostics Inc., a private company in partnership with The Genome Institute at Washington University in St. Louis. Previously, he was Senior VP at McCann-Erickson, and served in positions of increasing client services responsibility at BBDO West, Needham Harper Worldwide, Leo Burnett Company, and J. Walter Thompson Company. Mr. Menzel is a graduate of the University of Wisconsin (BA) and Stanford University (MBA and MA) and is a National Association of Corporate Directors (NACD) Board Leadership Fellow. His extensive experience and expertise in branding and marketing provides a unique perspective and contribution to the Board.

David L. Vied—54: Mr. Vied was elected to the Board on January 27, 2015. Mr. Vied serves as the Global Sector Leader, Medical Devices & Diagnostics for Korn Ferry, a global leadership and talent advisory firm. Previous experience includes serving in leadership roles for other global recruiting and talent advisory firms. Mr. Vied

received a B.A. degree in Communication Studies from California State University at Sacramento and a M.S. degree in Labor and Industrial Relations from the University of North Texas. His experience in management and corporate organization rounds out an important expertise represented on the Board.

No family relationships exist between any director or executive officer and any other of our directors or executive officers.

No director or executive officer of the Company has been involved in any legal proceeding listed in Item 401(f) of Regulation S-K in the past 10 years.

Corporate Governance

The Audit Committee. The Board of Directors has a separately-designated audit committee. The Committee is comprised of Ralph K. Carlton (Chair), Walter B. Menzel and Michael A. Davis. The Board has determined that each member of the Audit Committee is an “independent director” under the Nasdaq and SEC rules applicable to Audit Committee members. The Board has determined that Ralph K. Carlton is an “audit committee financial expert” as defined in Item 407 of Regulation S-K promulgated under the Exchange Act, and thus possesses “financial sophistication” as that term is defined by applicable Nasdaq listing rules. The Audit Committee operates and acts under a written charter adopted by the Board. A copy of the Charter and Powers of the Audit Committee can be found on the Company’s website at www.cyanotech.com.

Section 16(a) Beneficial Ownership Reporting Compliance. Section 16(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) requires the Company’s directors and executive officers, and persons who own more than 10% of its common stock, to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the SEC. To the Company’s knowledge, based solely on a review of Forms 3 and 4, as amended, furnished to it during its most recent fiscal year, and Form 5, as amended, furnished to it with respect to such fiscal year, the Company believes that during fiscal 2015, its directors and executive officers and greater than 10% shareholders filed all such reports required to be filed under Section 16(a) on a timely basis.

Code of Ethics. We have adopted the Cyanotech Code of Ethics for Chief Executive Officer and Senior Financial Officers (the “Code of Ethics”), which is included in our Code of Conduct and Ethics. We have also adopted the Board of Directors Code of Conduct. Both Codes are publicly available on our website at www.cyanotech.com. If we make any substantive amendments to or grant any waiver from such Codes relating to our Chief Executive Officer, Chief Financial Officer or Controller, we will disclose the nature of such amendment in a report on Form 8-K and amend the website disclosure.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation of Named Executive Officers

The following table sets forth the compensation paid or accrued by the Company to the Chief Executive Officer and the two highest compensated executive officers of the Company, other than the Chief Executive Officer, for services rendered in all capacities to the Company (hereinafter referred to as the “Named Executive Officers”) for the fiscal years ended March 31, 2015 and 2014.

Name and Principal Position	Fiscal Year	ANNUAL COMPENSATION			All Other Compensation
		Salary (\$)	Bonus (\$)	Option Awards(\$)(1)	
Brent D. Bailey (2) President and Chief Executive Officer	2015	327,969	—	273,535	58,600
	2014	320,000	—	230,107	90,600
Jolé E. Deal (3) Chief Financial Officer and Vice President of Finance and Administration	2015	214,708	—	17,177	44,700
	2014	206,600	—	41,289	36,200
Gerald R. Cysewski Executive Vice President and Chief Scientific Officer	2015	172,223	—	69,308	—
	2014	170,000	—	78,935	—

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 2015 and 2014.

(2) Mr. Bailey became President and Chief Executive Officer effective January 11, 2011. He is also a Director of of the Company. All Other compensation includes perquisites provided to Mr. Bailey for commuting expenses to Hawaii including airfare, transportation to and from the local airport, parking fees; and housing, and transportation while working in Hawaii.

(3) Ms. Deal became Chief Financial Officer and Vice President of Finance and Administration effective August 16, 2011. All Other compensation includes perquisites provided to Ms. Deal for commuting expenses to Hawaii including airfare, transportation to and from the local airport, parking fees; and lodging and transportation while working in Hawaii.

Narrative Discussion of Summary Compensation Table

The elements of the Company's executive compensation include base salary, bonus, if awarded, and stock option awards. Base salary increases for the executive officers are reviewed on an annual basis by the Compensation Committee of the Board of Directors. Base salary increases of the named executive officers in fiscal year 2015 averaged 5.2% and were based on individual and company performance for fiscal year 2014.

The Committee believes that, as a general rule, annual compensation in excess of base salaries should be dependent on the Company's performance, and should be awarded based on 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. No bonuses have been awarded for fiscal 2015 performance.

On November 5, 2010, the Board of Directors of the Company entered into an employment agreement with Mr. Bailey, which provides for a term of up to seven years with a beginning salary of \$300,000 and participation in an annual incentive program with a target bonus opportunity of 50% of his then-current salary, plus an opportunity for a greater bonus if he achieves stretch goals measured by compound annual earnings growth significantly exceeding fiscal year earnings goals, subject to the Board's discretion. In addition, as part of the agreement Mr. Bailey was granted stock options equivalent to approximately 13½% of all issued and outstanding shares of the Company's common stock as of the actual date of commencement of his employment term. Such options vest and become exercisable in increasingly larger increments on the anniversary dates of the commencement date of his employment.

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 this Plan. There were no stock option grants awarded to any of the named executive officers in fiscal 2015.

Outstanding Equity Awards at Fiscal 2015 Year-End

Name	Option Awards		Option exercise price (\$)	Option expiration date
	Number of Shares of Common Stock Underlying Unexercised Options (#) Exercisable	Unexercisable		
Brent D. Bailey	230,000	—	3.04	1/12/2021
	148,000	349,916	(1)3.82	8/28/2021

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	378,000	349,916		
Jolé E. Deal	40,000	—	3.82	8/28/2021
	1,000	1,000	(2)5.61	8/15/2022
	41,000	1,000		
Gerald R. Cysewski	2,000	—	1.60	2/21/2018
	10,000	—	2.08	4/29/2019
	12,000	—	3.58	6/30/2021
	3,000	—	3.82	8/28/2021
	60,000	40,000	(3)3.82	8/28/2021
	6,250	6,250	(4)5.84	7/18/2022
	93,250	46,250		

(1) Options were granted August 29, 2011 and vest on January 11, 2016, 2017 and 2018 as to 108,000 shares, 108,000 shares and 133,916 shares, respectively.

(2) Options were granted August 16, 2012 and vest equally on August 16, 2015 and August 16, 2016.

(3) Options were granted August 29, 2011 and vest equally on August 29, 2015 and August 29, 2016.

(4) Options were granted July 19, 2012 and vest equally on July 19, 2015 and July 19, 2016.

Director Compensation

The following table sets forth the compensation earned by non-employee directors for fiscal year 2015: