

CYANOTECH CORP  
Form 10-Q  
November 14, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For Quarterly Period Ended September 30, 2011**

**Or**

**o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the Transition Period From                      to**

**Commission File Number 0-14602**

**CYANOTECH CORPORATION**

(Exact name of registrant as specified in its charter)

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NEVADA  
(State or other jurisdiction  
of incorporation or organization)

91-1206026  
(IRS Employer  
Identification Number)

73-4460 Queen Kaahumanu Hwy. #102, Kailua-Kona, HI 96740

(Address of principal executive offices)

(808) 326-1353

(Registrant's telephone number)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 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 check mark 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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  Smaller reporting company   
(Do not check if a smaller reporting company)

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

Number of common shares outstanding as of November 14, 2011:

Title of Class	Shares Outstanding
Common stock - \$0.02 par value	5,405,618



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## CYANOTECH CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except par value and number of shares)

(Unaudited)

	September 30, 2011	March 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,091	\$ 2,062
Accounts receivable, net of allowance for doubtful accounts of \$58 at September 30, 2011 and March 31, 2011	2,524	2,641
Inventories, net	3,188	3,627
Deferred tax assets	17	17
Prepaid expenses and other assets	225	134
Total current assets	10,045	8,481
Equipment and leasehold improvements, net	4,871	4,557
Deferred tax assets	535	535
Other assets	275	287
Total assets	\$ 15,726	\$ 13,860
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 224	\$ 204
Customer deposits	77	115
Accounts payable	1,236	1,054
Accrued expenses	1,019	823
Total current liabilities	2,556	2,196
Long-term debt, excluding current maturities	493	553
Total liabilities	3,049	2,749
Commitments and contingencies		
Stockholders' equity:		
Common stock of \$0.02 par value, shares authorized 7,500,000; 5,405,618 shares issued and outstanding at September 30, 2011 and 5,391,968 shares at March 31, 2011	108	108
Additional paid-in capital	28,008	27,803
Accumulated deficit	(15,439)	(16,800)
Total stockholders' equity	12,677	11,111

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Total liabilities and stockholders' equity	\$	15,726	\$	13,860
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See accompanying Notes to Condensed Consolidated Financial Statements.

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## CYANOTECH CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2011	2010	2011	2010
NET SALES	\$ 5,989	\$ 3,834	\$ 11,939	\$ 7,690
COST OF SALES	3,199	2,182	7,045	4,379
Gross profit	2,790	1,652	4,894	3,311
<b>OPERATING EXPENSES:</b>				
General and administrative	1,117	643	2,065	1,406
Sales and marketing	609	393	1,176	776
Research and development	89	62	160	146
Loss on disposal of equipment and leasehold improvements	62		64	
Total operating expenses	1,877	1,098	3,465	2,328
Income from operations	913	554	1,429	983
Interest expense, net	(10)	(18)	(24)	(38)
Income before provision for income taxes	903	536	1,405	945
PROVISION FOR INCOME TAXES	28	10	44	20
NET INCOME	\$ 875	\$ 526	\$ 1,361	\$ 925
<b>NET INCOME PER SHARE:</b>				
Basic	\$ .16	\$ .10	\$ .25	\$ .17
Diluted	\$ .16	\$ .10	\$ .25	\$ .17
<b>SHARES USED IN CALCULATION OF NET INCOME PER SHARE:</b>				
Basic	5,398	5,374	5,397	5,314
Diluted	5,473	5,390	5,471	5,333

See accompanying Notes to Condensed Consolidated Financial Statements.

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## CYANOTECH CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	2011	Six Months Ended September 30,	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$	1,361	\$ 925
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss on disposal of equipment and leasehold improvements		64	
Depreciation and amortization		337	279
Amortization of debt issue costs and other assets		21	14
Share based compensation expense		200	36
Net (increase) decrease in assets:			
Accounts receivable		117	(66)
Inventories		439	(680)
Prepaid expenses and other assets		(100)	(30)
Net increase (decrease) in liabilities:			
Customer deposits		(38)	10
Accounts payable		182	(436)
Accrued expenses		196	(38)
Net cash provided by operating activities		2,779	14
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment in equipment and leasehold improvements		(716)	(307)
Proceeds from return of restricted cash			250
Net cash used in investing activities		(716)	(57)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from long term debt, net of costs		65	
Principal payments on long-term debt		(105)	(176)
Proceeds from stock options exercised		6	185
Net cash provided by (used in) financing activities		(34)	9
Net increase (decrease) in cash and cash equivalents			
		2,029	(34)
Cash and cash equivalents at beginning of period			
		2,062	817
Cash and cash equivalents at end of period			
	\$	4,091	\$ 783
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid during the period for:			
Interest	\$	21	\$ 25
Income taxes	\$	18	\$ 12

See accompanying Notes to Condensed Consolidated Financial Statements.





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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2011

(Unaudited)

**1. BASIS OF PRESENTATION**

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information pursuant to the instructions to Form 10-Q and Regulation S-X. These interim condensed consolidated financial statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations, and Condensed Consolidated Statements of Cash Flows for the periods presented in accordance with GAAP. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. The condensed consolidated balance sheet as of March 31, 2011 was derived from the audited financial statements. These condensed consolidated financial statements and notes should be read in conjunction with the Company's consolidated financial statements for the year ended March 31, 2011, contained in the Company's annual report on Form 10-K as filed on June 23, 2011.

The accompanying consolidated condensed financial statements include the accounts of Cyanotech Corporation and its wholly owned subsidiary, Nutrex Hawaii, Inc. ( Nutrex Hawaii or Nutrex ). All significant intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the periods reported. Management reviews these estimates and assumptions periodically and reflects the effect of revisions in the period that they are determined to be necessary. Actual results could differ from those estimates and assumptions.

**2. INVENTORIES**

Inventories are stated at the lower of cost (which approximates first-in, first-out) or market. Market is defined as sales price less cost to dispose and a normal profit margin. Inventories consist of the following:

	September 30, 2011	March 31, 2011
	(in thousands)	
Raw materials	\$ 506	\$ 336
Work in process	256	339

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Finished goods(1)	2,237	2,787
Supplies	189	165
	\$ 3,188	\$ 3,627

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(1) Net of reserve for obsolescence of \$24,000 and \$148,000 at September 30, 2011 and March 31, 2011, respectively.

The Company recognizes abnormal production costs, including fixed cost variances from normal production capacity, as an expense in the period incurred. Approximately \$218,000 and \$416,000 of abnormal production costs were charged to cost of sales for the three and six months ended September 30, 2011. No abnormal production costs were charged to cost of sales for the three and six months ended September 30, 2010.

3. &