

CYANOTECH CORP
Form 10-Q
March 14, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For Quarterly Period Ended December 31, 2006

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
(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)

Check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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 March 1, 2007:

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Title of Class	Shares Outstanding
Common stock - \$0.02 par value	5,233,543

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Explanatory Note Restatement of Financial Information

On December 1, 2006, Cyanotech Corporation (the Company) filed a Current Report on Form 8-K with the Securities and Exchange Commission (SEC) announcing that it would be restating certain consolidated financial statements in amendments to its annual report on Form 10-K/A for the fiscal year ended March 31, 2006. As more fully described in Note 13 to the Consolidated Financial Statements in Form 10-K/A filed February 14, 2007, the Company identified errors in the application of certain accounting practices and procedures. The restatement and filing of Form 10-K/A was primarily the result of the Company's failure to include as a component of inventory cost certain fixed production costs such as depreciation, general insurance and minor compensation cost. All inventories, cost of sales and operating expense balances, as presented in this Form 10-Q, properly reflect the inclusion of these fixed production costs in accordance with Accounting Research Bulletin No. 43. In addition, the restatement and filing of Form 10-K/A also included adjustments for certain Hawaii State Tax Credits and interest income for the years ended March 31, 2004 and 2003, and tax adjustments for the years ended March 31, 2006, 2005, 2004, and 2003, all of which were considered immaterial in prior years. In addition, refundable income taxes were restated for each of the years in the three year period ended March 31, 2006 and the reclassification of certain certificates of deposit from cash to short-term investments in fiscal years 2005 and 2004. These reclassifications had no effect on reported net income (loss) or in cash flow from operations. The foregoing adjustments and reclassifications are, where appropriate, reflected in the comparative restated information presented in this Form 10-Q.

The Company is filing this Form 10-Q for the fiscal quarter ended December 31, 2006. Restated amounts from the consolidated balance sheet, as of March 31, 2006, and the statement of operations and consolidated statement of cash flows for the three and nine months ended December 31, 2005 are included in this filing. The Company will not file a Form 10-Q/A for the quarterly period ended December 31, 2005, and the consolidated financial statements and related information contained in that report should no longer be relied upon.

On November 3, 2006, the Company implemented a one for four stock split at which time the share price closed at \$0.43 with 20,934,565 common shares outstanding. As the stock split occurred during the fiscal quarter reported by this Form 10-Q, and prior to the issuance of the financial statements, all share data and per share data in these financial statements and notes to financial statements reflect the effect of the split.

This Form 10-Q should be read in conjunction with the Company's Form 10-K/A for the fiscal year ended March 31, 2006 filed February 14, 2007. Prior period comparative information contained in this Form 10-Q has been restated consistent with the Company's Form 10-K/A and to reflect the Company's one-for-four reverse stock split (see Notes 2 and 3 of Notes to Consolidated Financial Statements included in the Form 10-Q).

The Company did not file Form 10-K/A, for the fiscal years 2005 or 2004, or Form 10-Q/A, for the interim periods affected by the restatement prior to and including December 31, 2005. The consolidated financial statements and related financial information for such periods as previously filed, contain errors and should therefore no longer be relied upon. The related audit reports for the years ended March 31, 2005 and 2004 of KPMG LLP, the Company's independent registered public accounting firm, with respect to those financial statements should also no longer be relied upon.

Potential Delisting of Our Common Stock From Nasdaq Capital Market Trading. See Risk Factors Part II, Item 1A herein.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

CYANOTECH CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(Unaudited)

	December 31, 2006	March 31, 2006 (As Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,306	\$ 1,835
Short-term investments	700	700
Accounts receivable, net	1,519	2,209
Refundable income taxes	27	17
Inventories (see Note 4)	1,797	2,056
Prepaid expenses and other current assets	219	99
Total current assets	5,568	6,916
Equipment and leasehold improvements, net (see Note 5)	9,451	10,164
Other assets	441	515
Total assets	\$ 15,460	\$ 17,595
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 364	\$ 364
Accounts payable	638	485
Accrued expenses	511	420
Total current liabilities	1,513	1,269
Long-term debt, excluding current maturities (see Note 6)	1,119	1,387
Total liabilities	2,632	2,656
Stockholders' equity (see Notes 2 and 3):		
Common Stock of \$0.02 par value; shares authorized 7,500,000; 5,233,543 shares issued and outstanding at December 31, 2006 and 5,232,066 at March 31, 2006	105	105
Additional paid-in capital	27,333	27,330
Accumulated other comprehensive income - foreign currency translation adjustments	(9) (1
Accumulated deficit	(14,601) (12,495
Total stockholders' equity	12,828	14,939
Total liabilities and stockholders' equity	\$ 15,460	\$ 17,595

See accompanying Notes to Consolidated Financial Statements.

CYANOTECH CORPORATION
 CONSOLIDATED STATEMENTS OF OPERATIONS
 (In thousands, except per share amounts)
 (Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005 (As Restated)	2006	2005 (As Restated)
NET SALES	\$ 2,434	\$ 2,333	\$ 7,353	\$ 7,879
COST OF PRODUCT SALES	2,356	1,674	6,400	5,633
Gross profit	78	659	953	2,246
OPERATING EXPENSES:				
Research and development	81	44	161	140
Sales and marketing	327	347	942	975
General and administrative	833	444	1,866	