

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For Quarterly Period Ended September 30, 2024
Or
 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)

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)

Securities registered pursuant to Section 12(b) of the Act: None

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 1, 2024, the number of shares outstanding of the registrant's common stock was 7,155,858.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report and other presentations made by Cyanotech Corporation (“CYAN”) and its subsidiary contain “forward-looking statements,” which include statements that are predictive in nature, depend upon or refer to future events or conditions, and usually include words such as “expects,” “anticipates,” “intends,” “plan,” “believes,” “predicts”, “estimates” or similar expressions. In addition, any statement concerning future financial performance, ongoing business strategies or prospects and possible future actions are also forward-looking statements. Forward-looking statements are based upon current expectations and projections about future events and are subject to risks, uncertainties and the accuracy of assumptions concerning CYAN and its subsidiary (collectively, the “Company”), the performance of the industry in which CYAN does business, and economic and market factors, among other things. **These forward-looking statements are not guarantees of future performance. You should not place undue reliance on forward-looking statements.**

Forward-looking statements speak only as of the date of the Report, presentation or filing in which they are made. Except to the extent required by the Federal Securities Laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Our forward-looking statements in this Report include, but are not limited to:

- Statements relating to our business strategy;
- Statements relating to our business objectives; and
- Expectations concerning future operations, profitability, liquidity and financial resources.

These forward-looking statements are subject to risk, uncertainties and assumptions about us and our operations that are subject to change based on various important factors, some of which are beyond our control, including those factors described in Item 2 of Part I of this quarterly report and in Item 1A of Part I of the Company’s Annual Report on Form 10-K filed on June 26, 2024. Additionally, the following factors, among others, could cause our financial performance to differ significantly from the goals, plans, objectives, intentions and expectations expressed in our forward-looking statements:

- The added risks associated with or attributed to the current local, national and world economic conditions, including but not limited to, the volatility of crude oil prices, inflation and currency fluctuations;
- Access to available and reasonable financing on a timely basis;
- The Company’s inability to generate enough revenues to meet its obligations or repay maturing indebtedness; and
- Failure of capital projects to operate as expected or meet expected results.

It is not possible to predict or identify all potential risks and uncertainties and the above referenced factors and list do not comprise a complete list of all potential risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in any forward-looking statement contained in this report. All forward-looking statements speak only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in or incorporated by reference into this report. Except as is required by law, the Company expressly disclaims any obligation to publicly release any revisions to forward-looking statements to reflect events after the date of this report. Throughout this report, Cyanotech Corporation, together with its subsidiary, are referred to as “the Company.”

CYANOTECH CORPORATION
FORM 10-Q
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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

CYANOTECH CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)
(Unaudited)

	September 30, 2024	March 31, 2024
ASSETS		
Current assets:		
Cash	\$ 780	\$ 707
Accounts receivable, net of allowance for credit losses of \$11 as of September 30, 2024 and March 31, 2024	1,592	2,102
Inventories	7,185	7,313
Prepaid expenses and other current assets	568	469
Total current assets	<u>10,125</u>	<u>10,591</u>
Equipment and leasehold improvements, net	9,505	10,109
Operating lease right-of-use assets, net	4,161	4,284
Other assets	122	128
Total assets	<u>\$ 23,913</u>	<u>\$ 25,112</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,132	\$ 1,439
Accrued expenses	619	757
Customer deposits	272	198
Operating lease obligations, current portion	533	530
Short term debt - bank	1,000	1,240
Line of credit – related party	2,000	1,250
Current maturities of long-term debt	3,019	3,140
Total current liabilities	<u>9,575</u>	<u>8,554</u>
Long-term debt – related party	1,000	1,000
Long-term operating lease obligations	3,646	3,744
Total liabilities	<u>14,221</u>	<u>13,298</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock of \$0.01 par value, authorized 10,000,000 shares; no shares issued and outstanding	—	—
Common stock of \$0.02 par value, authorized 50,000,000 shares; issued and outstanding 7,142,700 shares at September 30, 2024 and 6,947,246 shares at March 31, 2024	143	139
Additional paid-in capital	34,802	34,576
Accumulated deficit	(25,253)	(22,901)
Total stockholders' equity	<u>9,692</u>	<u>11,814</u>
Total liabilities and stockholders' equity	<u>\$ 23,913</u>	<u>\$ 25,112</u>

See accompanying notes to condensed consolidated financial statements

CYANOTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2024	2023	2024	2023
Net sales	\$ 5,845	\$ 6,373	\$ 11,743	\$ 11,519
Cost of sales	4,366	4,285	8,787	7,899
Gross profit	1,479	2,088	2,956	3,620
Operating expenses:				
General and administrative	1,244	1,160	2,513	2,434
Sales and marketing	1,073	1,385	2,238	2,661
Research and development	137	175	221	366
Total operating expenses	2,454	2,720	4,972	5,461
Loss from operations	(975)	(632)	(2,016)	(1,841)
Interest expense, net	(175)	(163)	(336)	(323)
Loss before income taxes	(1,150)	(795)	(2,352)	(2,164)
Income tax expense	—	2	—	2
Net loss	\$ (1,150)	\$ (797)	\$ (2,352)	\$ (2,166)
Net loss per share:				
Basic	\$ (0.16)	\$ (0.13)	\$ (0.34)	\$ (0.34)
Diluted	\$ (0.16)	\$ (0.13)	\$ (0.34)	\$ (0.34)
Shares used in calculation of net loss per share:				
Basic	7,004	6,366	6,976	6,328
Diluted	7,004	6,366	6,976	6,328

See accompanying notes to condensed consolidated financial statements

CYANOTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

Three months ended September 30, 2024 and 2023

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	(in thousands, except share data)				
Balances at June 30, 2024	6,948,379	\$ 139	\$ 34,624	\$ (24,103)	\$ 10,660
Issuances of common stock for Directors Stock Grants	116,049	2	92	—	94
Issuances of common stock to Directors in lieu of cash for current year board fees	13,334	—	10	—	10
Issuances of common stock to Directors in lieu of cash for prior year board fees	53,333	1	39	—	40
Issuances of vested shares of restricted stock	18,608	1	(5)	—	(4)
Shares withheld for tax payments	(7,003)	—	—	—	—
Share-based compensation expense	—	—	42	—	42
Net loss	—	—	—	(1,150)	(1,150)
Balances at September 30, 2024	7,142,700	\$ 143	\$ 34,802	\$ (25,253)	\$ 9,692
Balances at June 30, 2023	6,291,086	\$ 126	\$ 33,917	\$ (19,003)	\$ 15,040
Issuances of common stock for Directors Stock Grants	159,493	3	123	—	126
Issuances of vested shares of restricted stock	35,718	—	(11)	—	(11)
Shares withheld for tax payments	(12,518)	—	—	—	—
Share-based compensation expense	—	—	49	—	49
Net loss	—	—	—	(797)	(797)
Balances at September 30, 2023	6,473,779	\$ 129	\$ 34,078	\$ (19,800)	\$ 14,407

Six months ended September 30, 2024 and 2023

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	(in thousands, except per share data)				
Balances at March 31, 2024	6,947,246	\$ 139	\$ 34,576	\$ (22,901)	\$ 11,814
Issuances of common stock for Directors Stock Grants	116,049	2	92	—	94
Issuances of common stock to Directors in lieu of cash for current year board fees	13,334	—	10	—	10
Issuances of common stock to Directors in lieu of cash for prior year board fees	53,333	1	39	—	40
Issuances of vested shares of restricted stock	20,456	1	(5)	—	(4)
Shares withheld for tax payments	(7,718)	—	—	—	—
Share-based compensation expense	—	—	90	—	90
Net loss	—	—	—	(2,352)	(2,352)
Balances at September 30, 2024	7,142,700	\$ 143	\$ 34,802	\$ (25,253)	\$ 9,692
Balances at March 31, 2023	6,271,971	\$ 125	\$ 33,856	\$ (17,634)	\$ 16,347
Issuances of common stock for Directors Stock Grants	159,493	3	123	—	126
Issuances of common stock to Directors in lieu of cash for prior year board fees	17,672	—	15	—	15
Issuances of vested shares of restricted stock	37,996	1	(12)	—	(11)
Shares withheld for tax payments	(13,353)	—	—	—	—
Share-based compensation expense	—	—	96	—	96
Net loss	—	—	—	(2,166)	(2,166)
Balances at September 30, 2023	6,473,779	\$ 129	\$ 34,078	\$ (19,800)	\$ 14,407

See accompanying notes to condensed consolidated financial statements

CYANOTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six Months Ended September 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,352)	\$ (2,166)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	751	811
Amortization of debt issue costs and other assets	13	15
Amortization of operating leases right-of-use assets	140	242
Share-based compensation expense	194	222
Provision for credit losses	—	11
Net (increase) decrease in assets:		
Accounts receivable	510	(110)
Inventories	128	1,116
Prepaid expenses and other assets	(100)	49
Net increase (decrease) in liabilities:		
Accounts payable	651	437
Accrued expenses	(98)	(188)
Customer deposits	74	38
Operating lease obligations	(112)	(236)
Other liabilities	—	(3)
Net cash (used in) provided by operating activities	<u>(201)</u>	<u>238</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in equipment and leasehold improvements	(105)	(286)
Net cash used in investing activities	<u>(105)</u>	<u>(286)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on short term debt and line of credit – bank	(240)	(335)
Draws on short term debt and line of credit – bank	—	275
Draws on line of credit – related party	750	500
Principal payments on long-term debt – bank	(127)	(118)
Taxes paid related to net share settlement of restricted stock units	(4)	(12)
Net cash provided by financing activities	<u>379</u>	<u>310</u>
Net increase in cash	73	262
Cash at beginning of period	707	974
Cash at end of period	<u>\$ 780</u>	<u>\$ 1,236</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	<u>\$ 330</u>	<u>\$ 273</u>
Income taxes	<u>\$ 9</u>	<u>\$ 6</u>

See accompanying notes to condensed consolidated financial statements

CYANOTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2024
(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Cyanotech Corporation (the “Company”), located in Kailua-Kona, Hawaii, was incorporated in the state of Nevada on March 3, 1983, and is traded on the OTCQB Market under the symbol “CYAN”. The Company is engaged in the production of natural products derived from microalgae for the dietary supplements market.

The Company is an agricultural company that produces high value natural products derived from microalgae grown in complex and intricate open-pond agricultural systems on the Kona coast of Hawaii. The Company's products include *Hawaiian Spirulina Pacifica*®, a superfood with numerous benefits, including boosting the immune system and overall cellular health; and *BioAstin*® *Hawaiian Astaxanthin*®, a powerful antioxidant shown to support and maintain the body's natural inflammatory response.

The accompanying unaudited 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 of the Securities and Exchange Commission (“SEC”). 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, Condensed Consolidated Statements of Stockholders’ Equity 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 results of operations for the interim periods are not necessarily indicative of the results to be expected for the full fiscal year. The Condensed Consolidated Balance Sheet as of March 31, 2024 was derived from the audited consolidated financial statements. These condensed consolidated financial statements and notes should be read in conjunction with the Company's audited consolidated financial statements for the year ended March 31, 2024, contained in the Company's annual report on Form 10-K as filed with the SEC on June 26, 2024.

Liquidity and Going Concern

The accompanying condensed consolidated financial statements as of and for the three and six months ended September 30, 2024 and 2023, and as of March 31, 2024, have been prepared assuming the Company will continue as a going concern. The going concern assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company sustained operating losses and cumulative negative cash flows from operations for most of these same periods. Further, as discussed below, the Company was not in compliance with two debt covenant requirements at March 31, 2024 and one debt covenant requirement at March 31, 2023. In June 2023, First Foundation Bank (the “Bank”) instituted a freeze on additional advances from the Revolving Credit Agreement (the “Line of Credit”). These conditions raise substantial doubt about the Company's ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments to the carrying amounts and classification of assets, liabilities, and reported expense that may be necessary if the Company was unable to continue as a going concern.

As of September 30, 2024, the Company had cash of \$780,000 and working capital of \$550,000 compared to \$707,000 and \$2,037,000, respectively, as of March 31, 2024. The Company had a Line of Credit with the Bank that provided for borrowings up to \$2,000,000 on a revolving basis, however, as part of the covenant waiver at March 31, 2023, the borrowings under this Line of Credit were frozen. On October 13, 2023, the Bank converted this Line of Credit to a term loan in the amount of \$1,480,000 with an original maturity date of August 30, 2024 (the “2023 Loan”). As of September 30, 2024 and March 31, 2024, the Company had \$1,000,000 and \$1,240,000, respectively, outstanding on the 2023 Loan, with a maturity date, which was extended to March 31, 2025. (See Note 5).

The Company also has a loan facility with a related party that allows the Company to borrow up to \$4,000,000 on a revolving basis (the “Revolver”). At September 30, 2024 and March 31, 2024, the Company had \$2,000,000 and \$1,250,000, respectively, outstanding borrowings on the Revolver, which was included in line of credit – related party on the Condensed Consolidated Balance Sheets. The Revolver expires on April 12, 2026 (see Notes 5 and 12).

As of September 30, 2024, the Company had \$3,093,000 of debt pursuant to the 2012 Loan (as defined below) payable to the Bank that require the payment of principal and interest monthly through August 2032. Pursuant to the 2012 Loan and the 2023 Loan, the Company is subject to annual financial covenants, customary affirmative and negative covenants and certain subjective acceleration clauses. As of March 31, 2024, the Company's debt service coverage ratio and current ratio fell short of the Bank's annual requirement. On September 12, 2024, the Bank provided the Company with a letter waiving the covenant violations as of March 31, 2024, but noting that the Bank reserves its right to declare a default in the future if any covenants remain out of compliance at applicable measurement dates.

In April 2019, the Company obtained a loan in the amount of \$1,500,000 from a related party. The proceeds were used to pay down accounts payable and for general operating capital purposes. On April 12, 2021, December 14, 2022, August 14, 2023, and August 9, 2024, the Company amended this loan (see Notes 5 and 12). As of both September 30, 2024 and March 31, 2024, the Company had \$1,000,000 outstanding on the related party note. The loan matures on April 12, 2027.

The Company continues to experience a loss from operations as the impacts from the macroeconomic environment led to lower sales across the Company's portfolio, therefore, the Company continues to rely on its funding source to provide liquidity. To address the resulting cash flow challenges, the Company continues to monitor cost savings initiatives implemented in fiscal year 2023, including stopping or slowing production of inventory in alignment with current customer demand, maintaining a reduced headcount and compensation, primarily through attrition and furloughs, respectively, and eliminating certain discretionary selling, general and administrative expenses. The Company has also made changes in the sales and marketing team starting with the Chief Commercial Officer and strengthening the sales team, re-positioning the brand(s) and optimizing the Company's marketing efforts to emphasize its competitive strengths. In addition, the Company raised capital by completing a private placement in the third fiscal quarter of 2024.

Funds generated by operating activities and available cash are the Company's most significant sources of liquidity for working capital requirements, debt service and funding of maintenance levels of capital expenditures. The Company has developed its operating plan to produce a significant portion of its cash flows necessary to meet all financing requirements, with the remaining need for capital raising. Although the Company has a history of either being in compliance with debt covenants, or obtaining the necessary waivers, execution of its operating plan is dependent on many factors, some of which are not within the control of the Company. However, no assurances can be provided that the Company will achieve its operating plan and cash flow projections for the next fiscal years or its projected consolidated financial position as of September 30, 2025. Such estimates are subject to change based on future results and such change could cause future results to vary significantly from expected results.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The accompanying condensed consolidated financial statements include the accounts of Cyanotech Corporation and its wholly owned subsidiary, Nutrex Hawaii, Inc. ("Nutrex Hawaii" or "Nutrex", collectively the "Company"). The Company operates in one business segment and uses one measurement of profitability for its business. Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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 any contingent assets and liabilities as of the date of the financial statements 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.

Financial Instruments and Fair Value

The Company applies a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 — Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified contractual term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value.

Cash, Accounts Receivable, Accounts Payable, Accrued Expenses and Customer Deposits - Due to the short-term nature of these instruments, management believes that the carrying amounts approximate fair value.

Line of Credit, Revolver, Short-Term and Long-Term Debt - The carrying amount of our line of credit, Revolver and short and long-term debt approximates fair value as interest rates applied to the underlying debt are adjusted quarterly to market interest rates, which approximate current interest rates for similar debt instruments of comparable maturities.

Cash

Cash primarily consists of cash on hand and cash in bank deposits.

Concentration Risk

A significant portion of revenues and accounts receivables are derived from a few major customers. For the three months ended September 30, 2024, two customers individually accounted for 33% and 9% of the Company's total net sales, and for the three months ended September 30, 2023, two customers individually accounted for 42% and 16% of the Company's total net sales. For the six months ended September 30, 2024, two customers individually accounted for 32% and 11% of the Company's total net sales, and for the six months ended September 30, 2023, two customers individually accounted for 38% and 17% of the Company's total net sales. Two customers accounted for 70% and 72% of the Company's accounts receivable balance as of September 30, 2024 and March 31, 2024, respectively.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not accrue interest. Credit is extended based on evaluation of the customer's financial condition. Collateral is not required. The allowance for credit losses reflects management's best estimate of expected credit losses inherent in the accounts receivable balance. Management determines the allowance based on historical experience, specifically identified nonpaying accounts and other currently available evidence, including the likelihood of each customer not being able to pay, due to the Company's small customer and recurring customer base. Management reviews its customer account balances monthly with a focus on significant individual past due balances over 90 days. All other balances are reviewed on a pooled basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers or otherwise.

Revenue Recognition

The Company records revenue based on the five-step model which includes: (1) identifying the contract with the customer; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations; and (5) recognizing revenue when the performance obligations are satisfied. Substantially all of the Company's revenue is generated by fulfilling orders for the purchase of its microalgal dietary supplements to retailers, wholesalers, or direct to consumers via online channels, with each order considered to be a distinct performance obligation. These orders may be formal purchase orders, verbal phone orders, e-mail orders or orders received online. Shipping and handling activities for which the Company is responsible under the terms and conditions of the order are not accounted for as performance obligations but as fulfillment costs. These activities are required to fulfill the Company's promise to transfer the goods and are expensed when revenue is recognized.

Revenue is measured as the net amount of consideration expected to be received in exchange for fulfilling a performance obligation. The Company has elected to exclude sales, use and similar taxes from the measurement of the transaction price. The amount of consideration expected to be received and revenue recognized includes estimates of variable consideration, which includes costs for trade promotion programs, coupons, returns and early payment discounts. Such estimates are calculated using historical averages adjusted for any expected changes due to current business conditions and experience. The Company reviews and updates these estimates at the end of each reporting period and the impact of any adjustments are recognized in the period the adjustments are identified. In assessing whether collection of consideration from a customer is probable, the Company considers the customer's ability and intent to pay that amount of consideration when it is due. Payment of invoices is due as specified in the underlying customer agreement, typically 30 days from the invoice date, which occurs on the date of transfer of control of the products to the customer. Revenue is recognized at the point in time that control of the ordered products is transferred to the customer. Generally, this occurs when the product is delivered, or in some cases, picked up from one of the Company's distribution centers by the customer. Revenue from extraction services is recognized when control is transferred upon completion of the extraction process.

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Customer contract liabilities consist of customer deposits received in advance of fulfilling an order and are shown separately on the Condensed Consolidated Balance Sheets. During the three months ended September 30, 2024 and 2023, the Company recognized \$33 and \$3,000, respectively, of revenue from deposits that were included in contract liabilities as of March 31, 2024 and 2023, respectively. During the six months ended September 30, 2024 and 2023, the Company recognized \$45,000 and \$18,000, respectively, of revenue from deposits that were included in contract liabilities as of March 31, 2024 and 2023, respectively. The Company's contracts have a duration of one year or less and therefore, the Company has elected the practical expedient of not disclosing revenues allocated to partially unsatisfied performance obligations.

Disaggregation of Revenue

The following table represents revenue disaggregated by major product line and extraction services for the:

(\$ in thousands)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023
Packaged sales		
Astaxanthin packaged	\$ 3,119	\$ 3,697
Spirulina packaged	1,087	1,594
Total packaged sales	4,206	5,291
Bulk sales		
Astaxanthin bulk	632	607
Spirulina bulk	710	359
Total bulk sales	1,342	966
Contract extraction and R&D services revenue	297	116
Total net sales	<u>\$ 5,845</u>	<u>\$ 6,373</u>

(\$ in thousands)	Six Months Ended September 30, 2024	Six Months Ended September 30, 2023
Packaged sales		
Astaxanthin packaged	\$ 6,378	\$ 6,504
Spirulina packaged	2,517	3,169
Total packaged sales	8,895	9,673
Bulk sales		
Astaxanthin bulk	1,407	907
Spirulina bulk	1,052	722
Total bulk sales	2,459	1,629
Contract extraction and R&D services revenue	389	217
Total net sales	<u>\$ 11,743</u>	<u>\$ 11,519</u>

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to the current period financial statement presentation. There was no impact on previously reported financial statements for the periods presented.

Recent Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2023-07, "Segment Reporting (Topic 28): Improvements to Reportable Segment Disclosures" ("ASU 2023-07"), which requires disclosure of incremental segment information on an annual and interim basis. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, and it requires retrospective application to all prior periods presented in the financial statements. The Company is currently evaluating the impact that ASU 2023-07 will have on the presentation of its consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosure” (“ASU 2023-09”), which enhances the transparency and decision usefulness of income tax disclosures. Adjustments to the annual disclosure of income taxes include: a tabulate rate reconciliation comprised of eight specific categories; income taxes paid, disaggregated between significant federal, state, and foreign jurisdictions; eliminating requirements to disclose the nature and estimate of reasonably possible changes to unrecognized tax benefits in the next 12 months or that an estimated range cannot be made; and adds a requirement to disclose income (or loss) from continuing operations before income tax expense (or benefit) and income tax expense (or benefit) from continuing operations disaggregated between domestic and foreign. ASU 2023-09 is effective for public business entities for fiscal years beginning on or after December 15, 2024, with early adoption permitted. The amendments in ASU 2023-09 should be applied on a prospective basis. Retrospective application is permitted. The Company is currently evaluating ASU 2023-09 to determine its impact on the Company’s disclosures.

3. INVENTORIES

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. Inventories consist of the following as of:

	September 30, 2024	March 31, 2024
	(in thousands)	
Raw materials	\$ 835	\$ 1,149
Work in process	3,942	2,195
Finished goods	2,058	3,658
Supplies	350	311
Inventories	<u>\$ 7,185</u>	<u>\$ 7,313</u>

The Company recognizes abnormal production costs, including fixed cost variances from normal production capacity, fixed production overhead costs, idle facilities, freight handling costs and spoilage, as an expense in the period incurred, without adjusting overhead absorption rates. Normal production capacity is defined as the production expected to be achieved over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The Company had abnormal production capitalization of \$31,000 and no abnormal production costs to cost of sales for the three months ended September 30, 2024 and 2023, respectively. The Company had abnormal production capitalization of \$53,000 and abnormal production expense of \$133,000 to cost of sales for the six months ended September 30, 2024 and 2023, respectively.

In fiscal year 2024, cultivation of astaxanthin was completed year-round, however, in fiscal year 2025, cultivation of astaxanthin will be completed in the most productive nine months of the year. The Company calculates total production costs for the year based on normal capacity of production expected to be achieved in a year under normal circumstances. These costs are then allocated into inventory based on the period of production, not including abnormal production costs. Allocating fixed and overhead costs requires management’s judgement to determine when production is outside of the normal range of expected variation in production.

Other non-inventoriable fixed costs of \$15,000 and \$136,000 were expensed to cost of sales for the three months ended September 30, 2024 and 2023, respectively. Other non-inventoriable fixed costs of \$83,000 and \$325,000 were expensed to cost of sales for the six months ended September 30, 2024 and 2023, respectively.

4. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following as of:

	September 30, 2024	March 31, 2024
	(in thousands)	
Equipment	\$ 21,964	\$ 21,904
Leasehold improvements	15,075	15,075
Furniture and fixtures	419	419
	37,458	37,398
Less accumulated depreciation and amortization	(28,250)	(27,500)
Construction-in-progress	297	211
Equipment and leasehold improvements, net	<u>\$ 9,505</u>	<u>\$ 10,109</u>

Management has determined that no asset impairment existed as of September 30, 2024. Depreciation and amortization expense were approximately \$373,000 and \$404,000 for the three months ended September 30, 2024 and 2023, respectively. Depreciation and amortization expense were approximately \$751,000 and \$811,000 for the six months ended September 30, 2024 and 2023, respectively.

5. LINE OF CREDIT AND LONG-TERM DEBT

Total debt consists of the following as of:

	September 30, 2024	March 31, 2024
	(in thousands)	
Short-term debt - bank	\$ 1,000	\$ 1,240
Line of credit – related party	2,000	1,250
Long-term debt	3,093	3,220
Long-term debt - related party	1,000	1,000
Unamortized debt issuance costs	(74)	(80)
Less current maturities	(6,019)	(5,630)
Total long-term debt – related party	<u>\$ 1,000</u>	<u>\$ 1,000</u>

Line of Credit and Term Loans

On June 3, 2016, the Company entered into a Credit Agreement with the Bank, after the necessary approvals from the State of Hawaii were received, to secure the lien on the Company’s leasehold property in Kona, Hawaii. The Credit Agreement further defined the terms and conditions for the 2012 Loan and allowed for the Line of Credit, which was subsequently converted to the 2023 loan. The Credit Agreement grants the Bank the following security interests in the Company’s property: (a) a lien on the Company’s leasehold interest in its Kona facility; (b) an assignment of the Company’s interest in leases and rents on its Kona facility; and (c) a security interest in all fixtures, furnishings and equipment related to or used by the Company at the Kona facility. Each security interest is further subject to the terms of the Credit Agreement. Borrowings under the Credit Agreement bear interest at the Wall Street Journal prime rate plus 2%, floating, provided that at no time shall the annual interest rate be less than 5.25%.

On October 13, 2023, the Bank converted the Line of Credit to the 2023 Loan in the amount of \$1,480,000, with no further advances or disbursements under this line, with an original maturity of August 30, 2024. The 2023 Loan requires at least monthly payments of \$40,000 plus interest accrued on the unpaid balance of the loan at the Wall Street Journal prime rate plus 2%, floating, provided that at no time shall the annual interest rate be less than 7.0%. On August 28, 2024, the Bank extended the maturity date of the 2023 Loan from August 30, 2024 to March 31, 2025, at which time the full unpaid principal balance owed under the Credit Agreement, together with all interest, shall be due and payable in full. As of September 30, 2024 and March 31, 2024, the Company had \$1,000,000 and \$1,240,000, respectively, outstanding on the 2023 Loan, bearing interest for both periods at 8.5%, plus 2%. The 2023 Loan was included in current liabilities on the Condensed Consolidated Balance Sheets.

In 2012, the Company executed the 2012 Loan with a lender providing for \$5,500,000 in aggregate borrowings secured by substantially all the Company’s assets, including a mortgage on the Company’s interest in its lease at the National Energy Laboratory of Hawaii Authority, pursuant to a Term Loan Agreement dated August 14, 2012 (the “2012 Loan Agreement”). The 2012 Loan is evidenced by promissory notes in the amounts of \$2,250,000 and \$3,250,000, the repayment of which is partially guaranteed under the provisions of a United States Department of Agriculture (“USDA”) Rural Development Guarantee program. The proceeds of the 2012 Loan were used to acquire processing equipment and leasehold improvements at its Kona, Hawaii facility.

The provisions of the 2012 Loan required the payment of interest only for the first 12 months of the term; thereafter, and until its maturity on August 14, 2032, the obligation fully amortizes over nineteen (19) years. Interest on the 2012 Loan accrues on the outstanding principal balance at an annual variable rate equal to the published Wall Street Journal prime rate (8.5% at both September 30, 2024 and March 31, 2024) plus 1.0% and is adjustable on the first day of each calendar quarter and fixed for that quarter, provided that at no time shall the annual interest rate be less than 5.5%. The balance under the 2012 Loan was \$3,093,000 and \$3,220,000 at September 30, 2024 and March 31, 2024, respectively, and was included in current maturities of long-term debt in the debt table above. See Loan Covenants, Violations and Waiver below.

The 2012 Loan included a one-time origination and guaranty fees totaling \$214,500 and an annual renewal fee payable in the amount of 0.25% of the USDA guaranteed portion of the outstanding principal balance as of December 31 of each year, beginning December 31, 2012. The USDA has guaranteed 80% of all amounts owing under the 2012 Loan. The balance in unamortized debt issuance costs was \$74,000 and \$80,000 at September 30, 2024 and March 31, 2024, respectively, and was included in current maturities of long-term debt in the debt table above. See Loan Covenants, Violations and Waiver below.

Loan Covenants, Violation and Waiver

The Company's 2023 Loan and the 2012 Loan are subject to annual debt service and other financial covenants, including covenants which require the Company to meet key financial ratios and customary affirmative and negative covenants. As of March 31, 2023, the Company was not in compliance with the required debt service coverage ratio, however, was in compliance with the two other covenants. Due to this violation, the Bank would be contractually entitled to require immediate repayment of the outstanding term loans and the outstanding line of credit balance. On June 22, 2023, the Bank issued the Company a letter waiving the covenant violation as of March 31, 2023, and implemented an immediate freeze on any and all further advances of the Credit Agreement through the maturity date. As of March 31, 2024, the Company was not in compliance with the debt service coverage and current ratio, however, was in compliance with the third covenant. On September 12, 2024, the Bank issued a letter waiving the covenant violations as of March 31, 2024, but noting that the Bank reserves its right to declare a default in the future, if any covenants remain out of compliance at applicable measurement dates.

Although the 2012 Loan matures in August 2032, it is probable that a debt covenant violation occurs within the next twelve months. Therefore, the 2012 Loan and related unamortized debt issuance costs are classified as current on the Condensed Consolidated Balance Sheets.

Line of Credit and Debt – Related Party

In April 2019, the Company obtained a loan pursuant to the Skywords Note (as defined below in Note 12 Related Party Transactions) in the amount of \$1,500,000 with a related party and the interest was payable quarterly. The Skywords Note was originally due in April 2021. In April 2021, the Company amended the Skywords Note, which extended the expiration to April 2024, converted \$500,000 into the Revolver, adjusted the interest rate to reflect a floor of 5%, and granted a security interest in substantially all of the Company's personal property assets, subject to limited exceptions. Concurrently, with the amendment and conversion of the original Skywords Note, the Company repaid in cash the principal amount of \$500,000 plus accrued interest to date of \$1,900 (see Note 12). In December 2022, the Company further amended the Skywords Note to extend the expiration to April 2025 and increase the Revolver to \$1,000,000. On August 14, 2023, the Company further amended the Skywords Note to increase the Revolver to \$2,000,000. On August 9, 2024, the Company further amended the Skywords Note to increase the Revolver from \$2,000,000 to \$4,000,000 and extend its maturity to April 2026, as well as to extend the maturity of the Skywords Note to April 12, 2027.

The balance under the Skywords Note was \$1,000,000 at both September 30, 2024 and March 31, 2024. The balance was included in long-term debt at both September 30, 2024 and March 31, 2024, in the debt table above. At September 30, 2024 and March 31, 2024, the balance under the Revolver was \$2,000,000 and \$1,250,000, respectively, which was included in line of credit – related party in the debt table above. Interest accrues on the outstanding principal balance and the Revolver at an annual variable rate equal to the published Wall Street Journal prime rate (8.5% at both September 30, 2024 and March 31, 2024) plus 1.0% and is adjustable on the first day of each calendar quarter and fixed for that quarter, provided that at no time shall the annual interest rate be less than 5.0%.

Future principal payments under the loans at September 30, 2024 are as follows:

Fiscal year payments due	(in thousands)	
Remainder of 2025	\$	4,093
2028		1,000
Total principal payments	\$	<u>5,093</u>

6. OPERATING LEASES

The Company leases facilities, equipment and land under non-cancelable operating leases expiring through 2037. One of its facility leases contains price escalations and a renewal option for five years. Right-of-use assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are based on the present value of lease payments over the lease term, using the Bank's incremental borrowing rate based on the information available at recognition, and the Company has elected to exclude non-lease components. The Company also leases two 84-month solar leases for two of its buildings, and a 48-month lease for equipment, which are included in the right-of-use assets and liabilities. At September 30, 2024, the weighted average remaining lease terms of all operating leases was 8.9 years, the weighted average discount rate was 7.4%, and for the six months ended September 30, 2024 and 2023, the operating lease costs was \$434,000 and \$409,000, respectively.

Supplemental balance sheet information related to leases consist of the following as of:

Operating leases	Balance Sheet Classification	September 30,	March 31,
		2024	2024
		(in thousands)	
Right-of-use assets	Operating lease right-of-use assets	\$ 6,166	\$ 6,149
Accumulated lease amortization	Operating lease right-of-use assets	(2,005)	(1,865)
Total right-of-use assets		\$ 4,161	\$ 4,284
Current lease liabilities	Operating lease obligations	\$ 533	\$ 530
Non-current lease liabilities	Long-term operating lease obligations	3,646	3,744
Total lease liabilities		\$ 4,179	\$ 4,274

Maturities of lease liabilities at September 30, 2024 are as follows:

Payments	(in thousands)
Remainder of 2025	\$ 409
2026	822
2027	831
2028	524
2029	395
Thereafter	2,716
Total undiscounted lease payments	5,697
Less: present value discount	(1,518)
Total lease liability balance	\$ 4,179

7. ACCRUED EXPENSES

Accrued expenses consist of the following as of:

	September 30,	March 31,
	2024	2024
(in thousands)		
Wages	\$ 187	\$ 234
Vacation	328	327
Interest and legal	28	32
Other accrued expenses	76	164
Total accrued expenses	\$ 619	\$ 757

8. COMMITMENTS AND CONTINGENCIES

From time to time, the Company may be involved in litigation and investigations relating to claims and matters arising out of its operations in the normal course of business. There were no significant legal matters outstanding at September 30, 2024.

9. SHARE-BASED COMPENSATION

The Company has share-based compensation plans, which are more fully described in Note 9, Share-Based Compensation, to the Consolidated Financial Statements included in the Company's annual report on Form 10-K for the fiscal year ended March 31, 2024 as filed with the SEC on June 26, 2024.

As of September 30, 2024, the Company had two equity-based compensation plans: the 2016 Equity Incentive Plan (the "2016 Plan") and the 2024 Independent Director Stock Option and Restricted Stock Grant Plan (the "2024 Directors Plan"). These plans allow the Company to award stock options and shares of restricted common stock to eligible employees, certain outside consultants and independent directors. The Company has also issued stock options, which remain outstanding as of September 30, 2024, under the 2014 Independent Director Stock Option and Restricted Stock Grant Plan and Amendment (the "2014 Directors Plan"), an equity-based compensation plan which expired in accordance with its terms on August 22, 2024. This plan allowed the Company to award stock options and shares of restricted common stock to independent directors.

The following table presents shares authorized, available for future grant and outstanding under each of the Company's plans:

	As of September 30, 2024		
	Authorized	Available	Outstanding
2016 Plan	1,300,000	600,446	430,597
2024 Directors Plan	800,000	617,284	182,716
2014 Directors Plan	—	—	12,000
Total	2,100,000	1,217,730	625,313

Stock Options

All stock option grants made under the equity-based compensation plans were issued at exercise prices no less than the Company's closing stock price on the date of grant. Options under the 2016 Plan, 2024 Directors Plan and 2014 Directors Plan were determined by the Board of Directors or the Compensation Committee of the Board of Directors in accordance with the provisions of the respective plans. The terms of each option grant include vesting, exercise, and other conditions set forth in a Stock Option Agreement evidencing each grant. No option can have a life in excess of ten (10) years. The Company records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model. The model requires various assumptions, including a risk-free interest rate, the expected term of the options, the expected stock price volatility over the expected term of the options, and the expected dividend yield. Compensation expense for employee stock options is recognized ratably over the vesting term. Compensation expense recognized for options issued under all Plans was \$10,000 and \$24,000 for the three months ended September 30, 2024 and 2023, respectively. Compensation expense recognized for options issued under all Plans was \$39,000 and \$50,000 for the six months ended September 30, 2024 and 2023, respectively.

A summary of option activity under the Company's stock plans for the six months ended September 30, 2024 is presented below:

Option Activity	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at March 31, 2024	297,000	\$ 2.47	7.1	\$ —
Granted	50,000	0.78		
Outstanding at September 30, 2024	347,000	\$ 2.23	6.7	\$ —
Exercisable at September 30, 2024	247,000	\$ 2.64	5.6	\$ —

The aggregate intrinsic value in the table above is before applicable income taxes and represents the excess amount over the exercise price optionees would have received if all options had been exercised on the last business day of the period indicated, based on the Company's closing stock price of \$0.76 and \$0.29 at September 30, 2024 and March 31, 2024, respectively.

A summary of the Company's non-vested options for the six months ended September 30, 2024 is presented below:

Nonvested Options	Shares	Weighted Average Grant-Date Fair Value
Nonvested at March 31, 2024	125,000	\$ 1.16
Granted	50,000	0.15
Vested	(75,000)	1.28
Nonvested at September 30, 2024	100,000	\$ 0.56

The weighted average grant-date fair value of stock options granted during the six months ended September 30, 2024 was \$8,000. As of September 30, 2024, total unrecognized stock-based compensation expense related to all unvested stock options was \$49,000, which is expected to be expensed over a weighted average period of 2.2 years.

Restricted Stock

Grants of fully vested restricted stock issued to Non-Employee Directors during the three and six months ended September 30, 2024 and 2023 were 116,049 and 159,493, respectively. Compensation expense recognized for these fully vested restricted stock grants under the 2024 Directors Plan was \$94,000 for both three and six months ended September 30, 2024. Compensation expense recognized for these fully vested restricted stock grants under the 2014 Directors Plan was \$126,000 for both three and six months ended September 30, 2023.

To reduce the Company’s ongoing cash expenses, the Nominating and Corporate Governance Committee of the Board of Directors adopted a resolution allowing each director to elect to receive his quarterly director fees in the form of restricted stock in lieu of cash. One Board member elected to receive shares of restricted stock in lieu of cash for prior and current year’s quarterly board fees and on September 10, 2024, a total of 66,667 shares of fully vested restricted stock were issued. For the three and six months ended September 30, 2024, for this stock issuance, \$10,000 of compensation expense was recognized for the current year quarterly board fees and no compensation expense related to the prior year’s quarterly board fees were recognized, as these were earned and recognized in the prior fiscal years in the amount of \$40,000.

Two Board members elected to receive shares of restricted stock in lieu of cash for the third fiscal quarter of 2023 and on April 3, 2023, 17,672 shares of fully vested restricted stock were issued. For the three and six months ended September 30, 2023, there was no compensation expense related to the issuance of this stock, as it was earned and recognized in the fiscal year 2023 in the amount of \$15,500.

For the second quarter of fiscal 2025, one Board member elected to receive shares of restricted stock in lieu of cash and on October 1, 2024, 13,158 shares of fully vested restricted stock were issued. As of September 30, 2024, \$10,000 related to this stock issuance was included in accrued expenses in the Condensed Consolidated Balance Sheets.

Restricted Stock Units (“RSUs”)

RSUs are service-based awards granted to eligible employees under the 2016 Plan. Compensation expense recognized for RSUs issued under the 2016 Plan was \$32,000 and \$25,000 for the three months ended September 30, 2024 and 2023, respectively. Compensation expense recognized for RSUs issued under the 2016 Plan was \$51,000 and \$46,000 for the six months ended September 30, 2024 and 2023, respectively.

The following table summarizes information related to awarded RSUs:

Nonvested Restricted Stock Units	Shares	Weighted Average Grant Price
Nonvested restricted stock units at March 31, 2024	130,820	\$ 1.23
Vested	(20,456)	2.93
Forfeited	(14,767)	1.08
Nonvested restricted stock units at September 30, 2024	95,597	\$ 0.89

As of September 30, 2024, total unrecognized stock-based compensation expense related to unvested restricted stock units was \$58,000, which is expected to be expensed over a weighted average period of 0.5 years.

10. INCOME TAXES

The Company utilizes its estimated annual effective tax rate to determine its provision or benefit for income taxes for interim periods. The income tax provision or benefit is computed by multiplying the estimated annual effective tax rate by the year-to-date pre-tax book income (loss). The Company recorded no income tax expense and \$2,000 of income tax expense for the three months ended September 30, 2024 or 2023, with the effective tax rate of 0% and (0.3%), respectively. The Company recorded no income tax expense and \$2,000 of income tax expense for the six months ended September 30, 2024 or 2023, with the effective tax rate of 0% and (0.1%), respectively. The effective tax rate differs from the statutory rate of 21% as a result of state taxes (net of federal benefit) and the net change in valuation allowance against the net deferred tax asset the Company believes is not more likely than not to be realized. The Company continues to carry a full valuation allowance on its net deferred tax assets.

The Company is subject to taxation in the United States and eleven state jurisdictions. The preparation of tax returns requires management to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could affect the amount of tax paid by the Company. Management, in consultation with its tax advisors, files its tax returns based on interpretations that are believed to be reasonable under the circumstances. The income tax returns, however, are subject to routine reviews by the various taxing authorities. As part of these reviews, a taxing authority may disagree with respect to the tax positions taken by management (“uncertain tax positions”) and therefore may require the Company to pay additional taxes. Management evaluates the requirement for additional tax accruals, including interest and penalties, which the Company could incur as a result of the ultimate resolution of its uncertain tax positions. Management reviews and updates the accrual for uncertain tax positions as more definitive information becomes available from taxing authorities, completion of tax audits, expiration of statute of limitations, or upon occurrence of other events.

As of September 30, 2024 and 2023, there was no liability for income tax associated with unrecognized tax benefits. The Company recognizes accrued interest related to unrecognized tax benefits as well as any related penalties in interest income or expense in its Condensed Consolidated Statements of Operations, which is consistent with the recognition of these items in prior reporting periods.

In general, the Company's open tax years range from fiscal years ended 2020 to 2024. The Company has net operating loss carry forwards, which cause the federal and state statutes to remain open for earlier fiscal years.

11. EARNINGS PER SHARE

Basic earnings (loss) per share is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed on the basis of the weighted average number of common shares outstanding plus the potentially dilutive effect of outstanding stock options using the treasury stock method.

Reconciliations between the numerator and the denominator of the basic and diluted (loss) income per share computations for the three and six months ended September 30, 2024 and 2023 are as follows:

	Three Months Ended September 30, 2024		
	Net Loss (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands)		
Basic and diluted loss per share	\$ (1,150)	7,004	\$ (0.16)

	Three Months Ended September 30, 2023		
	Net Loss (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands)		
Basic and diluted loss per share	\$ (797)	6,366	\$ (0.13)

	Six Months Ended September 30, 2024		
	Net Loss (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands)		
Basic and diluted loss per share	\$ (2,352)	6,976	\$ (0.34)

	Six Months Ended September 30, 2023		
	Net Loss (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands)		
Basic and diluted loss per share	\$ (2,166)	6,328	\$ (0.34)

Basic and diluted per share amounts are the same in periods of a net loss because common share equivalents are anti-dilutive when a net loss is recorded. Diluted earnings per share does not include the impact of common stock options and restricted stock units totaling 51,000 and 1,000 for the three months ended September 30, 2024 and 2023, respectively, as the effect of their inclusion would be anti-dilutive. Diluted earnings per share does not include the impact of common stock options and restricted stock units totaling 34,000 and 2,000 for the six months ended September 30, 2024 and 2023, respectively, as the effect of their inclusion would be anti-dilutive. Restricted stock units become dilutive within the period granted and remain dilutive until the units vest and are then included in the calculation of basic earnings per share.

12. RELATED PARTY TRANSACTIONS

In April 2019, the Company obtained an unsecured subordinated loan from Skywords Family Foundation, Inc. ("Skywords") in the principal amount of \$1,500,000 pursuant to a Promissory Note (the "Skywords Note") executed by the Company in favor of Skywords. Skywords is controlled by the Company's Chairman of the Board of Directors and largest stockholder. The Skywords Note bore interest at a rate of 1% plus the prime rate (as published by the Wall Street Journal), which was recalculated and payable on a quarterly basis. The principal amount and any accrued and unpaid interest were due and payable on April 12, 2021. The proceeds of the Skywords Note were used to pay down accounts payable and for general operating capital purposes.

On April 12, 2021, the Company entered into an Amended and Restated Promissory Note (the “Skywords Amended Note”) with Skywords. The Company and Skywords agreed to amend, restate, replace and otherwise modify without novation, the Skywords Note in order to convert \$500,000 of the outstanding principal amount into revolving loans that may be prepaid and reborrowed from time to time in principal amounts not to exceed \$500,000, extend the maturity date by three years, adjust the interest rate to reflect a floor of 5% and secure Skywords’ interest by granting a security interest in substantially all of the Company’s personal property assets, subject to limited exceptions (the “Collateral”). On April 12, 2021, concurrently with the conversion, the Company repaid in cash to Skywords, the principal amount of \$500,000 plus accrued interest to date of \$1,900. The Skywords Amended Note bears interest at a rate of 1% plus the prime rate (as published by the Wall Street Journal), which will be recalculated and payable on a quarterly basis, provided that at no time shall the annual interest rate be less than 5%. The Company may prepay the Skywords Amended Note at any time without penalty.

On April 12, 2021, in connection with the grant of a security interest in the Collateral, the Company also entered into an Intercreditor and Subordination Agreement with the Bank and Skywords. The Company is indebted to the Bank pursuant to two Term Loans and a Credit Agreement, each of which granted the Bank a security interest in substantially all of the Company’s personal property assets. The Bank’s security interest in the Company’s personal property assets ranks senior to Skywords’ security interest in the Collateral, and the Intercreditor and Subordination Agreement generally governs the relationship between the Bank and Skywords as secured lenders to the Company and includes customary terms.

On December 14, 2022, the Company entered into a First Amendment (the “Amendment”) to the Skywords Amended Note. The Amendment extends the maturity date to April 12, 2025 and increases the revolving amount that the Company may borrow from time to time under the Skywords Note from \$500,000 to \$1,000,000. All other terms of the Skywords Amended Note remain the same.

On August 14, 2023, the Company entered into a Second Amendment (the “Second Amendment”) to the Skywords Amended Note. The Second Amendment increases the revolving amount that the Company may borrow from time to time under the Skywords Amended Note from \$1,000,000 to \$2,000,000. All other terms of the Skywords Amended Note remain the same.

On August 9, 2024, the Company entered into the Third Amendment (the “Third Amendment”) to the Skywords Amended Note. The Third Amendment extends the maturity date to April 12, 2026 and increases the revolving amount that the Company may borrow from time to time under the Skywords Note from \$2,000,000 to \$4,000,000. The Third Amendment also extends the maturity date of the Skywords Note to April 12, 2027. All other terms of the Skywords Amended Note remain the same.

At both September 30, 2024 and March 31, 2024, the Skywords Note principal balance was \$1,000,000, and was included in long-term debt on the Condensed Consolidated Balance Sheets. At September 30, 2024 and March 31, 2024, the balance on the Revolver was \$2,000,000 and \$1,250,000, respectively, and was included in line of credit – related party on the Condensed Consolidated Balance Sheets. At both September 30, 2024 and March 31, 2024, the interest rates was 8.5%.

13. SUBSEQUENT EVENTS

The Company had no subsequent events, other than those mentioned in Note 9 for Restricted Stock issued in October 2024.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview:

We are an agricultural company and a world leader in the production of natural products derived from microalgae grown in complex and intricate agricultural systems on the Kona coast of Hawaii. Incorporated in 1983, we are guided by the principle of providing beneficial, quality microalgal products for health and human nutrition in a sustainable, reliable and environmentally sensitive operation. We are Good Manufacturing Practices (“GMP”) certified by the Merieux NutriSciences, reinforcing our commitment to quality in our products, quality in our relationships (with our customers, suppliers, employees and the communities we live in), and quality of the environment in which we work. Our products include:

- *BioAstin® Hawaiian Astaxanthin®* - a powerful, natural antioxidant clinically studied to support and maintain the body’s natural inflammatory response, to enhance skin, and to support eye, joint and immune health*. It has expanding applications as a human dietary supplement and dietary ingredient; and
- *Hawaiian Spirulina Pacifica®* - a nutrient-rich superfood dietary supplement clinically supported for natural energy, immune system support, cardiovascular health and as a source of antioxidant carotenoids*

*These statements have not been evaluated by the Food and Drug Administration. This product is not intended to diagnose, treat, cure or prevent any disease.

Microalgae are a diverse group of microscopic plants that have a wide range of physiological and biochemical characteristics and contain, among other things, high levels of natural protein, amino acids, vitamins, pigments and enzymes. Microalgae have the following properties that make commercial production attractive: (1) microalgae grow much faster than land grown plants, often up to 100 times faster; (2) microalgae have uniform cell structures with no bark, stems, branches or leaves, permitting easier extraction of products and higher utilization of the microalgae cells; and (3) the cellular uniformity of microalgae makes it practical to control the growing environment in order to optimize a particular cell characteristic. Efficient and effective cultivation of microalgae requires consistent light, warm temperatures, low rainfall and proper chemical balance in a very nutrient-rich environment, free of environmental contaminants and unwanted organisms. This is a challenge that has motivated us to design, develop and implement proprietary production and harvesting technologies, systems and processes in order to commercially produce human dietary supplement products derived from microalgae.

Our production of these products at the 96-acre facility on the Kona Coast of the island of Hawaii provides several benefits. We selected the Keahole Point location in order to take advantage of relatively consistent warm temperatures, sunshine and low levels of rainfall needed for optimal cultivation of microalgae. This location also offers us access to cold deep ocean water, drawn from an offshore depth of 2,000 feet, which we use in our *Ocean-Chill Drying* system to eliminate the oxidative damage caused by standard drying techniques and as a source of trace nutrients for microalgal cultures. The area is also designated a Biosecure Zone, with tight control of organisms allowed into the area and free of genetically modified organisms (“GMO”). We believe that our technology, systems, processes and favorable growing location generally permit year-round harvest of our microalgal products in a cost-effective manner.

Results of Operations

The following tables present selected consolidated financial data for each of the periods indicated (\$ in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2024	2023	2024	2023
Net sales	\$ 5,845	\$ 6,373	\$ 11,743	\$ 11,519
Net sales increase (decrease)	(8.3)%	23.1%	1.9%	(3.2)%
Gross profit	\$ 1,479	\$ 2,088	\$ 2,956	\$ 3,620
Gross profit as % of net sales	25.3%	32.8%	25.2%	31.4%
Operating expenses	\$ 2,454	\$ 2,720	\$ 4,972	\$ 5,461
Operating expenses as % of net sales	42.0%	42.7%	42.3%	47.4%
Operating loss	\$ (975)	\$ (632)	\$ (2,016)	\$ (1,841)
Operating loss as % of net sales	(16.7)%	(9.9)%	(17.2)%	(16.0)%
Income tax expense	\$ —	\$ 2	\$ —	\$ 2
Net loss	\$ (1,150)	\$ (797)	\$ (2,352)	\$ (2,166)

Comparison of the Three Months Ended September 30, 2024 and 2023
Net Sales (in thousands)

	Three Months Ended September 30,		\$ Change	% Change
	2024	2023		
Packaged sales				
Astaxanthin	\$ 3,119	\$ 3,697	\$ (578)	(15.6)%
Spirulina	1,087	1,594	(507)	(31.8)%
Total Packaged sales	\$ 4,206	\$ 5,291	\$ (1,085)	(20.5)%
Bulk sales				
Astaxanthin	\$ 632	\$ 607	\$ 25	4.1%
Spirulina	710	359	351	97.8%
Total Bulk sales	\$ 1,342	\$ 966	\$ 376	38.9%
Contract extraction and R&D services revenue	\$ 297	\$ 116	\$ 181	156.0%
Total sales				
Astaxanthin	\$ 3,751	\$ 4,304	\$ (553)	(12.8)%
Spirulina	1,797	1,953	(156)	(8.0)%
Contract extraction and R&D services revenue	297	116	181	156.0%
Total sales	\$ 5,845	\$ 6,373	\$ (528)	(8.3)%

Net Sales The net sales decrease of 8.3% for the current quarter compared to the same period last year was driven by a decrease in both astaxanthin and spirulina packaged sales, offset by an increase in spirulina bulk sales and contract extraction revenue. During the current year quarter, we saw lower demand in packaged sales due to timing of shipments, offset by higher demand in spirulina bulk related to both timing of customer orders and increased demand.

Gross Profit Gross profit as a percent of net sales for the second quarter of fiscal 2025 decreased by 7.5 percentage points compared to the same period last year, which was the result of higher bulk sales with lower gross margins, and higher inventory costs due to lower production volumes.

Operating Expenses Operating expenses of \$2.5 million for the second quarter of fiscal 2025 compared to the prior year same quarter, decreased \$0.2 million. Sales and marketing expenses decreased primarily due to lower online selling fees and advertising costs.

Income Taxes We did not record income tax expense for the second quarter of fiscal 2025 and recorded an income tax expense of \$2,000 for the second quarter of fiscal 2024. We continue to carry a full valuation allowance on our net deferred tax assets.

Comparison of the Six Months Ended September 30, 2024 and 2023
Net Sales (in thousands)

	Six Months Ended September 30,		\$ Change	% Change
	2024	2023		
Packaged sales				
Astaxanthin	\$ 6,378	\$ 6,504	\$ (126)	(1.9)%
Spirulina	2,517	3,169	(652)	(20.6)%
Total Packaged sales	\$ 8,895	\$ 9,673	\$ (778)	(8.0)%
Bulk sales				
Astaxanthin	\$ 1,407	\$ 907	\$ 500	55.1%
Spirulina	1,052	722	330	45.7%
Total Bulk sales	\$ 2,459	\$ 1,629	\$ 830	51.0%
Contract extraction and R&D services revenue	\$ 389	\$ 217	\$ 172	79.3%
Total sales				
Astaxanthin	\$ 7,785	\$ 7,411	\$ 374	5.0%
Spirulina	3,569	3,891	(322)	(8.3)%
Contract extraction and R&D services revenue	389	217	172	79.3%
Total sales	<u>\$ 11,743</u>	<u>\$ 11,519</u>	<u>\$ 224</u>	1.9%

Net Sales The net sales increase of 1.9% for the first six months of fiscal year 2025 compared to the same period last year was driven by an increase in astaxanthin and spirulina bulk and contract extraction sales, offset by a decrease in both astaxanthin and spirulina packaged sales. We saw higher demand in bulk sales related to both timing of customer orders and increased demand over prior year, offset by decreased packaged sales due to the timing of shipments.

Gross Profit Gross profit as a percent of net sales for the first six months of fiscal 2025 decreased by 6.2 percentage points compared to the same period last year, which was the result of higher bulk sales with lower gross margins, and higher inventory costs due to lower production volumes.

Operating Expenses Operating expenses of \$5.0 million for the first six months of fiscal 2025 compared to the prior year same period, decreased \$0.5 million. Sales and marketing expenses decreased primarily due to lower online selling fees, advertising and commissions, as well as lower research and development costs related to lower headcount.

Income Taxes We did not record income tax expense for the first six months of fiscal 2025 and recorded an income tax expense of \$2,000 in the first six months of fiscal 2024. We continue to carry a full valuation allowance on our net deferred tax assets.

Liquidity and Going Concern

The accompanying condensed consolidated financial statements, as of and for the three and six months ended September 30, 2024 and 2023, and as of March 31, 2024, have been prepared assuming we will continue as a going concern. The going concern assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. We sustained operating losses and cumulative negative cash flows from operations for most of these same periods. Further, as discussed below, we were not in compliance with two debt covenant requirements at March 31, 2024 and one debt covenant requirement at March 31, 2023. In June 2023, the Bank instituted a freeze on additional advances from the Line of Credit. These conditions raise substantial doubt about our ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments to the carrying amounts and classification of assets, liabilities, and reported expense that may be necessary if we were unable to continue as a going concern.

As of September 30, 2024, we had cash of \$0.8 million and working capital of \$0.6 million compared to \$0.7 million and \$2.0 million, respectively, at March 31, 2024. We had a Line of Credit with the Bank that provided for borrowings up to \$2.0 million on a revolving basis, however, as part of the covenant waiver at March 31, 2023, the borrowings under this Line of Credit were frozen. On October 13, 2023, the Bank converted this Line of Credit to the 2023 Loan in the amount of \$1.48 million with an original maturity date of August 30, 2024. As of September 30, 2024 and March 31, 2024, we had \$1.0 million and \$1.24 million, respectively, outstanding on the 2023 Loan, with a maturity date, which was extended to March 31, 2025. (See Note 5 in the notes to our condensed consolidated financial statements).

We also have a loan facility with a related party that allows us to borrow up to \$4.0 million on the Revolver. At September 30, 2024 and March 31, 2024, we had \$2.0 million and \$1.25 million, respectively, outstanding borrowings on the Revolver, which was included in line of credit – related party on the Condensed Consolidated Balance Sheets. The Revolver expires on April 12, 2026 (see Notes 5 and 12 in the notes to our condensed consolidated financial statements).

As of September 30, 2024, we had \$3.1 million in the 2012 Loan payable to the Bank that require the payment of principal and interest monthly through August 2032. Pursuant to the 2012 Loan and the 2023 Loan, we are subject to annual financial covenants, customary affirmative and negative covenants and certain subjective acceleration clauses. As of March 31, 2024, our debt service coverage ratio and current ratio fell short of the Bank’s annual requirement. On September 12, 2024, the Bank provided us with a letter waiving the covenant violations as of March 31, 2024, but noting that the Bank reserves its right to declare a default in the future if any covenants remain out of compliance at applicable measurement dates.

In April 2019, we obtained a loan in the amount of \$1.5 million from a related party. The proceeds were used to pay down accounts payable and for general operating capital purposes. On April 12, 2021, December 14, 2022, August 14, 2023, and August 9, 2024, we amended this loan (see Notes 5 and 12 in the notes to condensed consolidated financial statements). As of both September 30, 2024 and March 31, 2024, we had \$1.0 million outstanding on the related party note. The loan matures on April 12, 2027.

We continue to experience a loss from operations as the impacts from the macroeconomic environment led to lower sales across our portfolio, therefore, we continue to rely on our funding source to provide liquidity. To address the resulting cash flow challenges, we continue to monitor cost savings initiatives implemented in fiscal year 2023, including stopping or slowing production of inventory in alignment with current customer demand, maintaining a reduced headcount and compensation, primarily through attrition and furloughs, respectively, and eliminating certain discretionary selling, general and administrative expenses. We have also made changes in the sales and marketing team starting with the Chief Commercial Officer and strengthening the sales team, re-positioning the brand(s) and optimizing our marketing efforts to emphasize our competitive strengths. In addition, we raised capital by completing a private placement in the third fiscal quarter of 2024.

Funds generated by operating activities and available cash are our most significant sources of liquidity for working capital requirements, debt service and funding of maintenance levels of capital expenditures. We have developed our operating plan to produce a significant portion of our cash flows necessary to meet all financing requirements, with the remaining need for capital raising. Although we have a history of either being in compliance with debt covenants or obtaining the necessary waivers, execution of our operating plan is dependent on many factors, some of which are not within the control of the Company. However, no assurances can be provided that we will achieve our operating plan and cash flow projections for this fiscal year or our projected consolidated financial position as of September 30, 2025. Such estimates are subject to change based on future results and such change could cause future results to vary significantly from expected results.

Cash Flows The following table summarizes our cash flows for the periods indicated (\$ in thousands):

	Six Months Ended	
	September 30,	
	2024	2023
Total cash (used in) provided by:		
Operating activities	\$ (201)	\$ 238
Investing activities	(105)	(286)
Financing activities	379	310
Increase in cash	<u>\$ 73</u>	<u>\$ 262</u>

Cash used in operating activities for the six months ended September 30, 2024 was the result of a net loss of \$2.4 million less non-cash items of \$1.1 million, offset by lower inventories and higher accounts payable as we continue to closely manage inventory and have increased the purchase of materials to support an increase in production to meet customer needs.

Cash used in investing activities for the six months ended September 30, 2024 primarily includes costs for capital improvements at our Kona facility.

Cash provided by financing activities for the six months ended September 30, 2024 consists of additional draws on the related party line of credit of \$750,000, offset by the paydown of \$240,000 on the 2023 Loan and \$127,000 of debt service payments.

Sources and Uses of Capital

As of September 30, 2024, our working capital was \$550 thousand, a decrease of \$1.5 million compared to March 31, 2024. The decrease was primarily due to a decrease in accounts receivable due to sales demand, timing and receipt of cash payments and inventories in the first half of fiscal year 2025, as we continue to manage our production in line with sales demand and material supplies are being managed on a just-in-time basis. We also had additional draw on the related party line of credit.

Our results of operations and financial condition can be affected by numerous factors, many of which are beyond our control and could cause future results of operations to fluctuate materially as it has in the past. Future operating results may fluctuate as a result of changes in sales volumes to our largest customers, weather patterns, increased competition, increased materials, nutrient and energy costs, government regulations and other factors beyond our control.

A significant portion of our expense levels are relatively fixed, so the timing of increases in expenses is based in large part on forecasts of future sales. If net sales are below expectations in any given period, the adverse impact on results of operations may be magnified by our inability to adjust spending quickly enough to compensate for the sales shortfall. We may also choose to reduce prices or increase spending in response to market conditions, which may have a material adverse effect on financial condition and results of operations.

Outlook

This outlook section contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially.

Our strategic direction has been to position as a world leader in the production and marketing of high-value natural products from microalgae. We are vertically aligned, producing raw materials in the form of microalgae processed at our 96-acre facility in Hawaii, and integrating those raw materials into finished products. Our primary focus is stabilizing our production volume, rationalizing market channel participation, and leveraging our centers of core competence. We will continue to place emphasis on our Nutrex Hawaiian consumer products while exploring further opportunities for bulk sales orders for Spirulina and Astaxanthin, both domestically and internationally. Extraction services to third party customers utilizing our 1,000 bar, supercritical carbon dioxide extractor process are expected to generate additional income throughout the year. We will leverage our experience and reputation for quality, nutritional products which promote health and well-being. The foundation of our nutritional products is naturally cultivated *Hawaiian Spirulina Pacifica*® in powder and tablet form; and *BioAstin*® *Hawaiian Astaxanthin*® antioxidant in extract and softgel form. Information about our Company and our products can be viewed at www.cyanotech.com and www.nutrex-hawaii.com. Consumer products can also be purchased online at www.nutrex-hawaii.com.

Gross profit margin percentages going forward can be impacted by lower production volumes along with pressure on input costs as well as greater competition in the market place. This could cause margins to decline in future periods. We will continue to focus on higher margin consumer products that promote health and well-being and strive for continuous improvements in processes and production methods to stabilize costs and production levels for the future. However, significant sales variability between periods may occur based on historical results.

Producing the highest quality microalgae is a complex biological process which requires balancing numerous factors including microalgal strain variation, temperature, acidity, nutrient and other environmental considerations, some of which are not within our control. An imbalance or unexpected event can occur resulting in production levels below normal capacity. The allocation of fixed production overheads (such as depreciation, rent and general insurance) to inventories is determined based on normal production capacity. When our production volumes are below normal capacity limits, certain fixed production overhead costs cannot be inventoried and are recorded immediately in cost of sales. In addition, when production costs exceed historical averages, we evaluate whether such costs are one-time-period charges or an ongoing component of inventory cost.

To manage our cash resources effectively, we will balance production with sales demand, minimizing the cost associated with inventory levels when appropriate and manage our expenses judiciously. We could experience unplanned cash outflows and may need to utilize other cash resources to meet working capital needs. A prolonged downturn in sales could impair our ability to generate sufficient cash for operations and hamper our ability to attract additional capital investment which could become necessary to maintain optimal production levels and efficiencies.

Our future results of operations and the other forward-looking statements contained in this Outlook, in particular the statements regarding revenues, gross margin and capital spending, involve a number of risks and uncertainties. In addition to the factors discussed above, any of the following could cause actual results to differ materially: business conditions and growth in the natural products industry and in the general economy; changes in customer order patterns; changes in demand for natural products in general; changes in weather conditions; changes in health and growing conditions of our astaxanthin and spirulina products; competitive factors, such as increased production capacity from competing spirulina and astaxanthin producers and the resulting impact, if any, on world market prices for these products; government actions and increased regulations both domestic and foreign; shortage of manufacturing capacity; and other factors beyond our control. Risk factors are discussed in detail in Part II, Item 1A of this quarterly report and in Part I, Item 1A of our Form 10-K report for the year ended March 31, 2024.

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We believe that our technology, systems, processes and favorable growing location generally permit year-round harvest of our microalgal products in a cost-effective manner. However, previously experienced imbalances in the highly complex biological production systems, together with volatile energy costs and rapidly changing world markets, suggest a need for continuing caution with respect to variables beyond our reasonable control. Therefore, we cannot, and do not attempt to, provide any definitive assurance with regard to our technology, systems, processes, location, or cost-effectiveness.

Off-Balance Sheet Arrangements

As of September 30, 2024, we had no off-balance sheet arrangements or obligations.

Impact of Inflation

Inflationary factors such as increases in the costs of materials, utilities and labor affected our operations. We have seen stabilization in our underlying costs, however, we are also experiencing overall lower demand as consumers are feeling the impacts of higher inflation and are closely managing their discretionary spend. The exact impact on our results is difficult to isolate and quantify given the macroeconomic environment. Most of our leases provide for cost-of-living adjustments and require us to pay for insurance and maintenance expenses, all of which are subject to inflation. Additionally, our future lease cost for new facilities may include potentially escalating costs of real estate and construction. There is no assurance that we will be able to pass on increased costs to our customers.

Depreciation expense is based on the historical cost of fixed assets and is therefore potentially less than it would be if it were based on current replacement cost. While property and equipment acquired in prior years will ultimately have to be replaced at higher prices, it is expected that replacement will be a gradual process over many years.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are disclosed in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of our Annual Report on Form 10-K for the fiscal year ended March 31, 2024, filed with the SEC on June 26, 2024. In the six months ended September 30, 2024, there were no changes to the application of critical accounting policies previously disclosed in our most recent Annual Report on Form 10-K.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer (“CEO”) and chief financial officer (“CFO”), we have evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15(d)-15(e) of the Exchange Act as of the end of the period covered by this Report. Based on that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (2) accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

Changes to Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2024, that has materially affected, or was reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company may be involved in litigation and investigations relating to claims and matters arising out of its operations in the normal course of business. There were no significant legal matters outstanding at September 30, 2024.

Item 1A. Risk Factors

For a discussion of the risk factors relating to our business, please refer to Part I, Item 1A of our Form 10-K for the year ended March 31, 2024, which is incorporated by reference herein.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 5. Other Information

On March 6, 2024, Michael Davis, the Chairman of the Company's Board of Directors, entered into a trading plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act. The plan provided for the purchase of 315,000 shares of Cyanotech common stock, which began on July 3, 2024. On October 1, 2024, the plan completed the aggregate purchase of 315,000 shares and was terminated in accordance with its terms.

Item 6. Exhibits

- 10.1 [Third Amendment to Amended and Restated Promissory Note, dated August 9, 2024, by and between Skywords Family Foundation, Inc. and Cyanotech Corporation \(Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 13, 2024\)](#)
- 31.1* [Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 signed as of November 12, 2024](#)
- 31.2* [Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 signed as of November 12, 2024](#)
- 32* [Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed as of November 12, 2024](#)
- 99.1* [Press Release dated November 12, 2024](#)
- 101 The following financial statements from Cyanotech Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements.
- 104 Cover Page Interactive Data File (Formatted as Inline XBRL and contained in Exhibit 101)

*Included herewith. Other exhibits were filed as shown above.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CYANOTECH CORPORATION
(Registrant)

November 12, 2024
(Date)

By: _____
/s/ Matthew K. Custer
Matthew K. Custer
President and Chief Executive Officer

November 12, 2024
(Date)

By: _____
/s/ Jennifer C. Rogerson
Jennifer C. Rogerson
Chief Financial Officer, Vice President — Finance & Administration, and Treasurer
(Principal Financial Officer)

EXHIBIT INDEX

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104	Cover Page Interactive Data File (Formatted as Inline XBRL and contained in Exhibit 101)

*Included herewith. Other exhibits were filed as shown above.

**Certification Pursuant
To 18 U. S. C. Section 1350,
As Adopted Pursuant To
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Matthew K. Custer, Chief Executive Officer certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cyanotech Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 12, 2024

/s/ Matthew K. Custer

Matthew K. Custer
President and Chief Executive Officer

**Certification Pursuant
To 18 U. S. C. Section 1350,
As Adopted Pursuant To
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Felicia Ladin, Chief Financial Officer certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cyanotech Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 12, 2024

/s/ Jennifer C. Rogerson

Jennifer C. Rogerson
*Chief Financial Officer; Vice President—
Finance &
Administration, and Treasurer
(Principal Financial Officer)*

**Certification of CEO and CFO
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Cyanotech Corporation (the "Company") on Form 10-Q for the period ended September 30, 2024 (the "Report") as filed with the Securities and Exchange Commission on the date hereof, each of the undersigned certifies that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act (15 U.S.C. 78m or 78o (d)); and
- 2) The information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Company.

Date: November 12, 2024

/s/ Matthew K. Custer

Matthew K. Custer
President and Chief Executive Officer

Date: November 12, 2024

/s/ Jennifer C. Rogerson

Jennifer C. Rogerson
*Chief Financial Officer; Vice President—
Finance &
Administration, and Treasurer
(Principal Financial Officer)*

**News Release**

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Cyanotech Reports Financial Results for the Second Quarter and First Six Months of Fiscal 2025

KAILUA KONA, Hawaii (November 12, 2024) — Cyanotech Corporation (OTCQB: CYAN), a world leader in microalgae-based, high-value nutrition and health dietary supplement products, announced financial results for the second quarter and first six months of fiscal year 2025, ended September 30, 2024.

Commenting on the second quarter fiscal year 2025 results, Cyanotech's President and Chief Executive Officer, Matthew K. Custer, said:

"In prior quarters, our inventory levels were reduced to just-in-time levels to manage cash flow and strong sales in the first quarter of fiscal 2025 decreased inventory. However, mid-quarter financing allowed us to start restocking, increasing work-in-progress inventory by \$1.9 million, even though finished goods were still down by \$1.5 million."

"Bulk inventory, which has a shorter production time, helped drive a 39% increase in sales, and revenue from contract extraction grew by 156%. However, packaged goods, which take longer to restock, saw a 21% decrease due to stock shortages and timing issues, contributing to an overall 8% drop in total sales for the quarter."

"For the first half of the year, sales were up 2%. While progress with packaged goods has been slower than expected, we're working quickly to replenish stock and continue promoting our algae-based products farmed in Hawaii's pristine waters."

Second Quarter Fiscal 2025

Cyanotech reported net sales of \$5,845,000 for the second quarter of fiscal 2025 compared to \$6,373,000 for the second quarter of fiscal 2024, a decrease of 8.3%. Gross profit was \$1,479,000, with gross profit margin of 25.3%, compared to gross profit of \$2,088,000, with gross profit margin of 32.8%. Operating loss for the second quarter of fiscal 2025 was \$975,000 compared to operating loss of \$632,000 in the same period of the prior year. Net loss for the current fiscal quarter was \$1,150,000, or \$0.16 per diluted share, compared to net loss of \$797,000, or \$0.13 per diluted share, for the same period of the prior year.

First Six Months of Fiscal 2025

Cyanotech reported net sales of \$11,743,000 for the first six months of fiscal 2025 compared to \$11,519,000 for the same period in fiscal 2024, an increase of 1.9%. Gross profit was \$2,956,000, with gross profit margin of 25.2%, compared to gross profit of \$3,620,000, with gross profit margin of 31.4%. Operating loss for the first six months of fiscal 2025 was \$2,016,000 compared to operating loss of \$1,841,000 in the same period of the prior year. Net loss for the first six months of fiscal 2025 was \$2,352,000, or \$0.34 per diluted share, compared to net loss of \$2,166,000, or \$0.34 per diluted share, for the same period of the prior year.

Trailing Twelve Months

For the trailing twelve months ended September 30, 2024, compared to the trailing twelve months ended September 30, 2023, net sales were \$23,295,000 compared to \$22,801,000, respectively. Gross profit was \$5,280,000, with gross profit margin of 22.7%, compared to \$6,771,000 and 29.7%. Net loss was \$5,452,000, or \$0.80 per diluted share, compared to net loss of \$4,195,000, or \$0.67 per diluted share.

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Please review the Company's Form 10-Q for the period ended September 30, 2024 for more detailed information.

— Cyanotech will host a virtual broadcast at 8:00 PM ET on Wednesday, November 13, 2024 to respond to questions about its operating results and other topics of interest. Interested parties are asked to submit questions to questions@cyanotech.com before 12 p.m. (noon) ET on Wednesday, November 13, 2024. The Company will respond only to relevant questions relating to the Company's second quarter fiscal 2025 financial performance and will not be accepting any questions or comments during the broadcast.

To join the broadcast, please browse <http://cyanotech.com/meet> approximately five minutes prior to the start time.

About Cyanotech — Cyanotech Corporation, a world leader in microalgae technology for more than 30 years, produces *BioAstin*® *Hawaiian Astaxanthin*® and *Hawaiian Spirulina Pacifica*®. These all-natural, dietary ingredients and supplements leverage our experience and reputation for quality, building nutritional brands which promote health and well-being. The Company's mission is to fulfill the promise of whole health through Hawaiian microalgae. Cyanotech's *BioAstin*® offers superior antioxidant activity which supports skin, eye and joint health, as well as recovery from exercise*. Cyanotech's Spirulina products offer nutrition that supports cardiovascular health and immunity*. All Cyanotech products are produced from microalgae grown at our 96-acre facility in Kona, Hawaii using patented and proprietary technology and are Generally Recognized as Safe ("GRAS") for use in food products. Cyanotech sells its products direct to consumers at retail locations in the United States and online at www.nutrex-hawaii.com and also distributes to dietary supplement, nutraceutical and cosmeceutical manufacturers and marketers. The Company is regulated by the Food and Drug Administration. Visit www.cyanotech.com for more information.

*These statements have not been evaluated by the Food and Drug Administration. This product is not intended to diagnose, treat, cure or prevent any disease.

"Safe Harbor" Statement under the U.S. Private Securities Litigation Reform Act of 1995 Besides statements of present fact and historical fact, this press release may contain forward-looking statements. Forward-looking statements relate to the future and are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by forward-looking statements. We caution against relying on forward-looking statements. Important factors that could change actual, future results include: changes in sales levels to our largest customers, weather patterns in Hawaii, production problems, risks associated with new products, foreign exchange fluctuations, and availability of financing, as well as national and global political, economic, business, competitive, market and regulatory conditions. Other factors are more fully detailed in the Company's annual Form 10-K filings with the Securities and Exchange Commission.

Financial Tables Follow: The following tables do not contain footnotes or other information contained in the Company's Form 10-Q for the second quarter fiscal 2025 ended September 30, 2024, which can be found on the Cyanotech website (www.cyanotech.com) under Investors>Investor Filings upon filing. As such, the following Financial Tables are provided only as a guide and other factors are more fully detailed in the Company's annual Form 10-K filings with the Securities and Exchange Commission.

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CYANOTECH CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	September 30, 2024	March 31, 2024
ASSETS		
Current assets:		
Cash	\$ 780	\$ 707
Accounts receivable, net of allowance for credit losses of \$11 as of September 30, 2024 and March 31, 2024	1,592	2,102
Inventories	7,185	7,313
Prepaid expenses and other current assets	568	469
Total current assets	10,125	10,591
Equipment and leasehold improvements, net	9,505	10,109
Operating lease right-of-use assets, net	4,161	4,284
Other assets	122	128
Total assets	\$ 23,913	\$ 25,112
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,132	\$ 1,439
Accrued expenses	619	757
Customer deposits	272	198
Operating lease obligations, current portion	533	530
Short term debt - bank	1,000	1,240
Line of credit – related party	2,000	1,250
Current maturities of long-term debt	3,019	3,140
Total current liabilities	9,575	8,554
Long-term debt – related party	1,000	1,000
Long-term operating lease obligations	3,646	3,744
Total liabilities	14,221	13,298
Commitments and contingencies		
Stockholders' equity:		
Preferred stock of \$0.01 par value, authorized 10,000,000 shares; no shares issued and outstanding	—	—
Common stock of \$0.02 par value, authorized 50,000,000 shares; issued and outstanding 7,142,700 shares at September 30, 2024 and 6,947,246 shares at March 31, 2024	143	139
Additional paid-in capital	34,802	34,576
Accumulated deficit	(25,253)	(22,901)
Total stockholders' equity	9,692	11,814
Total liabilities and stockholders' equity	\$ 23,913	\$ 25,112

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CYANOTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2024	2023	2024	2023
Net sales	\$ 5,845	\$ 6,373	\$ 11,743	\$ 11,519
Cost of sales	4,366	4,285	8,787	7,899
Gross profit	<u>1,479</u>	<u>2,088</u>	<u>2,956</u>	<u>3,620</u>
Operating expenses:				
General and administrative	1,244	1,160	2,513	2,434
Sales and marketing	1,073	1,385	2,238	2,661
Research and development	137	175	221	366
Total operating expenses	<u>2,454</u>	<u>2,720</u>	<u>4,972</u>	<u>5,461</u>
Loss from operations	(975)	(632)	(2,016)	(1,841)
Interest expense, net	(175)	(163)	(336)	(323)
Loss before income taxes	(1,150)	(795)	(2,352)	(2,164)
Income tax expense	—	2	—	2
Net loss	<u>\$ (1,150)</u>	<u>\$ (797)</u>	<u>\$ (2,352)</u>	<u>\$ (2,166)</u>
Net loss per share:				
Basic	<u>\$ (0.16)</u>	<u>\$ (0.13)</u>	<u>\$ (0.34)</u>	<u>\$ (0.34)</u>
Diluted	<u>\$ (0.16)</u>	<u>\$ (0.13)</u>	<u>\$ (0.34)</u>	<u>\$ (0.34)</u>
Shares used in calculation of net loss per share:				
Basic	<u>7,004</u>	<u>6,366</u>	<u>6,976</u>	<u>6,328</u>
Diluted	<u>7,004</u>	<u>6,366</u>	<u>6,976</u>	<u>6,328</u>

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