ANNUAL REPORT

YEAR ENDED DECEMBER 31, 2009

601 NE 26TH COURT
POMPANO BEACH, FL 33064
TEL: 954-943-8721
FAX: 954-788-6565

WWW.CYCLONEPOWER.COM

PART A **General Company Information**

Item I **The exact name of the issuer and its predecessor (if any)**

Cyclone Power Technologies, Inc.

Formerly: Coastal Technologies, Inc. until 7-07

Item II **The address of the issuer's principal executive offices**

601 NE 26th Court
Pompano Beach, FL 33064
Tel: 954-943-8721
Fax: 954-788-6565
www.cyclonepower.com

Investor Relations:
Frankie Fruge
frankie@cyclonepower.com

Item III **The state and date of the issuer's incorporation or organization**

Issuer was re-incorporated in Florida in June 2007
Previously, the Issuer was incorporated in California in 1971

PART B **Share Structure**

Item IV **The exact title and class of securities outstanding:** The Company has the following securities outstanding:

Common Stock (CUSIP: 23254W104, Pink Sheets: CYPW)
Series A Convertible Preferred Stock
Series B Preferred Stock

Item V **Par value and description of the security**

A. **Par Value or State Value**
Common Stock - $.0001 par value; 1,000,000,000 authorized
Series A Convertible Preferred Stock - $.0001 par value
Series B Preferred Stock - $.0001 par value
1 million total Preferred Shares authorized.

B. Common and Preferred Stock

The Company's Common Stock has no special dividend, voting or preemptive rights. Holders of Common Stock are entitled to one vote per share.

The Company's Preferred Stock is currently designated into two series: Series A Convertible Preferred Stock ("Series A Preferred"), and Series B Preferred Stock ("Series B Preferred").

The Series A Preferred was originally issued to management and the original 22 partners of the Company's predecessor in interest Cyclone Technologies LLLP (the "LLLP") in proportion to their LLLP equity holdings as of the date of the Acquisition (see Item VIII below). On July 24, 2009, the Company amended its Articles of Incorporation to increase the number of authorized Series A Preferred shares from 500,000 to 550,000; and on March 30, 2010, filed another amendment to its Articles of Incorporation to increase the number of authorized from 550,000 to 750,000. Both amendments were conducted by vote of the Board of Directors of the Company, as is required under Florida law.

Series A Preferred shares are, as a group, currently convertible into a number of common shares that equal sixty percent (60%) of the total issued and outstanding common shares of the Company at the time of conversion minus 33 million shares. The conversion of the Series A shares will have the effect of diluting all other common stock shareholders. As of December 31, 2009, the Series A Preferred shares were convertible into approximately 73 million shares of common stock. In the instance of a liquidating event – winding-up, merger or acquisition of the Company, the shares of Series A Preferred will convert to Common Stock on as per this conversion ratio.

The Series B Preferred shares are held by the Company's executive management and founders – Mr. Schoell and Ms. Fruge. The Series B Preferred is a majority voting stock, whereby its holders collectively will be able to cast votes equal to 51% of all shares of Common Stock issued and outstanding and able to vote in matters brought before the shareholders of the Company. The Series B Preferred, in essence, provides the Company's two executive managers with control over the voting matters brought before the shareholders of the Company, and could serve to delay, defer or prevent a change in control of the Company. In the instance of a liquidating event – winding-up, merger or acquisition of the Company, the shares of Series B Preferred will convert to Common Stock on a one-for-one basis.

Item VI **The number of shares or total amount of the securities outstanding for each class of securities outstanding:**

COMMON STOCK

	FYE 2009	FYE 2008
# of Shares Authorized	1,000,000,000	1,000,000,000
# of Shares Outstanding	103,699,113	83,016,028
Freely Tradable	37,352,203	30,653,471
# of Beneficial Shareholders	2,582	2,031
Total # of Shareholders of Record	2,950	2,505

SERIES A CONVERTIBLE PREFERRED STOCK

	FYE 2009	FYE 2008
# of Shares Authorized	550,000	500,000
# of Shares Outstanding	540,000	500,000
Freely Tradable	0	0
# of Beneficial Shareholders	25	22
Total # of Shareholders of Record	25	22

SERIES B PREFERRED STOCK

	FYE 2009	FYE 2008
# of Shares Authorized	1,000	1,000
# of Shares Outstanding	1,000	1,000
Freely Tradable	0	0
# of Beneficial Shareholders	2	2
Total # of Shareholders of Record	2	2

Warrants and Stock Options. The Company has issued the following common stock purchase warrants:

Shares Exercisable	Exercise Price	Vesting	Termination
8,000,000	$.25	May 1, 2010(1)	May 1, 2011(1)
2,073,982(2)	$.19	Aug 1, 2010(3)	Aug 1, 2012(3)

(1) Estimated date of Vesting and Termination based the Company's License Agreement with Renovalia Energy, SA.
(2) Estimated number of shares based on 2% of the total current outstanding shares of common stock as of 12/31/09.
(3) Estimated date of Vesting and Termination based the Company's License Agreement with Phoenix Power Systems

The Company has issued the following stock options to its executive management:

Shares Exercisable	Avg. Exercise Price	Vesting	Avg. Termination
1,000,000	$.325	Vested	July 1, 2018

PART C **<u>Business Information</u>**

Item VII **The name and address of the transfer agent**

The Issuer's SEC registered transfer agent is:
Transfer Online
317 SW Alder Street
2nd Floor
Portland, OR 97204

Its regulatory authority is the Securities Exchange Commission

Item VIII **The nature of the issuer's business**

A. **Business Development.** For purposes of this Item VIII A., and unless otherwise specifically stated, disclosure is being made as to Cyclone Power Technologies Inc., and prior to July 2, 2007, Cyclone Technologies LLLP (collectively, "Cyclone" or the "Company"); and the Company's business of engine technology research and development. As used in this Section, "the Issuer" shall refer to the business entity which existed prior to its acquisition of Cyclone, which was at the time called Coastal Technologies, Inc. ("Coastal").

1. **The form of organization of the Company/issuer:** The Company is a Florida corporation. Prior to July 2, 2007, the Company was a Florida limited liability limited partnership.

2. **The year that the Company/issuer was organized**: The Company was originally organized in 2004 as Cyclone Technologies LLLP, a Florida limited liability limited partnership. Coastal was organized in 1971 as a California corporation.

3. **The Company's/issuer's fiscal year end date**: December 31.

4. **Whether the issuer has been in bankruptcy, receivership or any similar proceeding**: Neither the Company nor the Issuer have ever been in bankruptcy, receivership or any similar proceeding.

5. **Any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets:** On July 2, 2007, the Issuer (Coastal) completed an acquisition (the "Acquisition") of all of the assets and liabilities of Cyclone Technologies LLLP, a Florida limited liability limited partnership (the "LLLP"). Prior to the Acquisition, the LLLP held the patent, trade secrets and other intellectual property that is now the Company's business to develop, protect and commercialize.

6. **Any default of the terms of any note, loan, lease, or other indebtedness of financing arrangement requiring the issuer to make payments:** The Company has had none and, to the knowledge of management, neither had the Issuer prior to the Acquisition.

7. **Any change of control:** In connection with the Acquisition, the original 22 partners of the LLLP (the "Original Partners") received 33,000,000 shares of restricted Common Stock of the Issuer, equal to approximately 60% of the total issued and outstanding shares of Common Stock of the Issuer on the date of closing. The Original Partners also received 500,000 shares of Series A Convertible Preferred Stock. Additionally, two of the LLLP's founders and executive management received 1,000 shares of Series B Preferred Stock (see description of these securities in **Item V. B.** above).

   Also as part of the Acquisition, the Company's previous management and directors, comprised of James DiPrima and Robin Moody, resigned and placed in control of the Company, Mr. Harry Schoell as sole Director and CEO, and Ms. Frankie Fruge as COO, the previous executive management and founders of the LLLP.

8. **Any increase in 10% or more of the same class of outstanding equity securities:** As described in Item VIII A. 7 above, in connection with the Acquisition, the Issuer issued 33,000,000 restricted shares of its Common Stock, equal to approximately 60% of the total issued and outstanding Common Stock on the date of closing (July 2, 2007).

   On July 1, 2007, the Issuer (Coastal) issued 21,750,000 shares of Common Stock, equal to approximately 39.5% of the total issued and outstanding Common Stock as of July 2, 2007 (the closing date of the Acquisition), to holders of convertible notes in the total principal and interest amount of $34,935.07.

9. **Any past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization:** Prior to the Acquisition described above, the Issuer's previous management completed a 10,000:1 reverse split of its Common Stock, effective June 30, 2007.

   Immediately subsequent to the Acquisition, the Company spun-off assets related to Coastal's business of billing software and systems used in medical offices. This sale was made to Hamlet Group, Inc., a Florida company established by the former management of Coastal specifically to acquire and utilize such assets. The purchase price paid for these assets was $100,000, which was recognized in retained earnings of the Company as of the date of the Acquisition.

10. **Any delisting of the issuer's securities by any securities exchange or NASDAQ or deletion from the OTC Bulletin Board:** None

11. Any current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material adverse effect on the issuer's business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator. None.

B. Business of Issuer For purposes of this Item VIII B., and unless otherwise specifically stated, disclosure is being made as to Cyclone, and prior to July 2, 2007, the LLLP. As used in this Section, "the Issuer" shall refer to the business of Coastal which existed prior to its acquisition of Cyclone.

1. The Company/issuer's primary and secondary SIC Codes: The Company's primary SIC Code is 8731 - Commercial physical research. The Company does not use a secondary SIC code.

2. If the issuer has never conducted operations, is in the development stage, or is currently conducting operations: The Company is a research and development company. Although the Company has generated some revenue in the form of advance royalties and development fees, and is a fully-operating entity, it has not yet achieved consistent or material revenue. However, the Company is not a development stage company, as it is currently conducting full operations.

3. Whether the issuer is or has at any time been a "shell company": No.

4. The names of any parent, subsidiary, or affiliate of the issuer: The Company has no parents or affiliates. The Company formed on January 11, 2009, Cyclone-WHE, Inc., a 100% owned subsidiary and operating division of the Company. The business of Cyclone-WHE is to manufacture and market the Company's waste heat engine products. Currently, this division has no revenue or separate operations, and any expenses of this division have been included in the Company's financial statement.

5. The effect of existing or probable governmental regulations on the business. The Company is not aware of any governmental regulations that adversely affect its business. Certain federal and state environmental regulations, such as those pertaining to the emissions of gas and diesel powered internal combustion engines in the United States, have the effect of creating a greater urgency for the Company's technology, and are thereby beneficial to the Company's future prospects, but do not have a direct effect on the manners and methods its uses in it business operations. The Company spends a material portion of investment funds and revenue on U.S. and foreign patent filings. These expenditures are itemized in the Company's financial statements.

6. **An estimate of the amount spent during each of the last two fiscal years on research and development activities, and, if applicable, the extent to which the cost of such activities is borne directly by customers:** As a technology

research and development company, much of the Company's annual expenses are dedicated towards R&D, including labor costs, material costs, tooling and equipment and other expenses required to run the Company's business. The Company's R&D expenditures for 2009 and 2008 were $1,115,795 and $866,380, respectively.

The Company actively pursues Development Agreements with customers, whereby the Company will develop an engine, design plans or other products for this customer at the customer's full or partial expense. Sometimes these arrangements are part of a more expansive License Agreement. The Company currently has multiple R&D-type agreements in place, and believes that at this time, approximately 50% of its R&D operations are borne by its customers, a percentage it strives to increase in the future.

7. **Costs and effects of compliance with environmental laws:** The Company is not aware of any environmental laws that directly adversely affect its business at the present time and in its current state of development. Certain federal and state environmental regulations, such as those pertaining to the emissions of gas and diesel powered internal combustion engines in the United States, have the effect of creating a greater urgency for the Company's technology, and are thereby beneficial to the Company's future prospects, but do not have a direct effect on the manners and methods its uses in it business operations. Other environmental emissions laws pertaining to boilers and steam generating units regulate large utility-sized power plants that operate similar to the Company's engines, but such regulations do not immediately affect the Company's R&D operations. The Company tries to stay abreast of environmental laws and regulations as they pertain to its technology and the business it conducts with its licensees and other partners.

8. **The total number of employees and number of full-time employees:** As of December 31, 2009, the Company had 15 full-time employees and 17 total employees.

Item IX The nature of products or services offered:

A. Principal products or services, and their markets: The Company is the developer and international rights holder of the **Cyclone Engine**, an award-wining, environmentally clean engine that is powerful and compact enough for virtually any application, from garden tools to electric power generators to automobiles, trucks and ships.

The Cyclone Engine is a heat-regenerative, external combustion, Rankine cycle engine. In other words, it is a high-efficiency **modern steam engine**, similar to those used to generate approximately 80% of the nation's electrical output at coal and nuclear power plants.

The benefits of the Cyclone Engine are many, including:

Runs on Renewable and "Free" Fuel: As an external combustion engine, the Cyclone is capable of running on virtually any liquid, gaseous or solid fuel, including renewable bio-fuels, propane or biomass. It can also run on heat generated from **solar thermal** collectors or **waste heat** from industrial processes, flares and even other engines.

Extreme Green Engine: By burning fuel at lower temperatures and lower pressures in a centrifugal chamber that fully incinerates particulate matters, the Cyclone emits far fewer toxic and greenhouse gases than current internal combustion (I/C) engines. When running off solar or recovered waste heat, there are no engine emissions at all.

Highly Efficient: The Cyclone recycles its own energy through multiple heat regenerative processes, and stops burning fuel when power is not needed (such as idling at a stop light), which is expected to create greater "well to wheel" efficiencies than gasoline or diesel powered I/C engines. In a waste heat application, management believes that it can increase efficiencies of an industrial system (such as a furnace or landfill flare) by 20% or more.

Powerful and Compact: Unlike batteries or fuel cells, the Cyclone is powerful enough for heavy transportation; and unlike steam engines of the past, the Cyclone is compact with an extremely high power to weight ratio, all contained in a closed-loop system so it never needs its working fluid (water) replenished.

Inexpensive to Build and Maintain: By eliminating many subsystems like oil pumps (the engine uses de-ionized water, not motor oil, as its lubricating agent), catalytic converters and complex fuel injectors, Cyclone Engine systems are expected to cost less to manufacture, operate and maintain than current gas and diesel powered internal combustion engines.

B. Distribution methods of the product or services: The Company's objective is to develop prototype engines for license to manufacturers and other groups in multiple industries throughout the world. We do not plan to be the actual manufacturer of these engines. As predominantly an R&D company, therefore, our revenue has and will come from:

- Up-front license fees and on-going royalties based on unit sales by our licensees;
- Development and consulting fees from licensees and other customers; and
- In some circumstances, sales revenue from engines we contract to have manufactured.

With respect to certain Waste Heat Recovery applications, the company may also realize revenue through the development, design and installation of total system packages, which could be sold to customers or provided to customers through a Power Purchase Agreement (PPA). We have established a specialized subsidiary company – *Cyclone-WHE Inc.* – to pursue these opportunities.

Since inception the Company has had limited revenue – approximately $700,000 in recognized and deferred revenue from several License and Development agreements, which include:

Raytheon Company: We just completed the testing phase of our Independent Research & Development contract with this $23 billion defense contractor, and are currently in discussions regarding the next phase of a broader Teaming Agreement, under which Cyclone expects to develop prototype engines for Raytheon's military and other customers.

Renovalia Energy: Renovalia is one of the leading renewable energy companies in the world with over 500 MW of alternative power currently in its portfolio. Our license with Renovalia provides them with worldwide rights to manufacture Cyclone Engines for their solar thermal solutions, for which Cyclone will receive $450,000 in development fees as work progresses ($250,000 has been paid to date), and then on-going royalties on each engine produced. Renovalia is expected to pay minimum royalties over the life of the agreement exceeding $3 million in order to maintain its license rights.

Phoenix Power Group: Our license with Phoenix Power provides them with the rights to utilize Cyclone Engines for power generators utilizing waste oil fuels, such as used automotive motor oil. Under its license, Phoenix will pay us $400,000 in license and development fees ($225,000 has been received to date), and then on-going royalties. Phoenix will pay minimum royalties over the life of the agreement which is expected to exceed $4 million in order to maintain their license rights.

Robotic Technologies: We have recently completed a $100,000 contract for RTI in Q1 2010, under which we developed a biomass-to-power generator using our Waste Heat Engine (WHE), which will ultimately power a robotic vehicle called the EATR. This is a Phase II DARPA-sponsored project.

Advent Power Systems: Advent has a license to develop engines using the Cyclone technology for US, EEU and Israeli military applications on an exclusive basis (except to the extent such customers are obtained through Raytheon). This license has a 20 year term. Advent had paid over $100,000 in license fees as of December 31, 2009, and is obligated to pay additional license fees and on-going royalties from the sale of engines produced using the Cyclone Technology.

Great Wall Alternative Power Systems: GWAPS is licensed to develop in China a production prototype of Cyclone's biomass-to-power generator system. Pending completion of production prototyping for Cyclone's Mark V engine in the United States, as well as successful implementation of the intellectual property protection systems in China designed by both GWAPS and Cyclone, GWAPS will also have the rights to develop the larger 95hp Mark V engine for electric power production. GWAPS has agreed to pay Cyclone $125,000 in development fees, an additional $400,000 in licensing fees, and then on-going royalties from the sale of Cyclone engines for use in electric power production in China. To date $87,500 has been paid to Cyclone to date under the agreement. Additionally, GWAPS will invest capital to provide for legal and financial structuring, government outreach, and intellectual property protection, including retaining professional organizations to monitor and, if necessary, prosecute patent infringement cases in China. Cyclone has also retained legal counsel in China to audit the IP protocols that GWAPS establishes.

Looking forward, the markets that we believe present the most viable business opportunities include:

Transportation	Power Generation	Equipment	Specialty
Automobiles, Trucks & Busses	10kW – 1MW Primary & Standby	Off-Road Industrial	Military & Defense
Marine crafts & Locomotives	Cogeneration (Waste Heat Recovery)	Mining & Lifting	Underwater Oil Exploration
Motorized Bikes & ATVs	Solar Thermal Dishes & Towers	Lawn & Garden	Oil Field & Landfill Flares

C. **Status of any publicly announced new product or service.** The Cyclone Engine is in development; however, prototypes of several different models and sizes are near completion. The following lists each of the Cyclone Engines that the Company has in development, and the currently estimated timing of completion:

Model	Size	Uses	Stage	Est. Completion
Mark II	18 HP	Portable & aux. power, light equipment	Alpha Test Engine	Completed
WHE Waste Heat Engine	16 HP	Mini cogeneration, Biomass-to-power	Production Model	Q2 2010
Solar I	5 HP	Solar thermal	Pre-Production Model	Q2 2010
Mark V	100 HP	Automotive, commercial power and cogeneration	Pre-production Beta Engine	Q4 2010
Mark VI	330 HP	Heavy transport, power plant, heavy equipment	Pre-production Beta Engine	Q4 2011

The Company has three U.S. patents issued on the Cyclone Engine, its combustion chamber and its valve mechanisms; foreign patents issued on the engine in eight countries and territories (i.e., the EEU), and U.S. and international applications filed on many of the major components of the Cyclone Engine and the Waste Heat Engine (See Item IX, G below).

D. Competitive business conditions: The Company believes that its Technology, which is a heat-regenerative Rankine cycle external combustion engine, has little direct competition. Currently, there are several companies, notably Infinia Corp., which have developed and commercialized other types of external combustion engines, such as Stirling engines. Stirling engines are similar to the Company's technology and are used in overlapping applications (such as solar thermal power generation); however, the two engine technologies have several major differences. Management believes that the Company' engine technology is more compact, more powerful and less expensive to build than Stirling engines; and as a result of these advantages, has more applications in mobile uses (i.e., cars, trucks and ships), and can produce power at a lower invested cost than a Stirling engine. The Company, however, has not yet commercialized its engine technology, and these claims are still to be proven. Also, Infinia in particular, seems to have greater capital resources than the Company does, which could help establish their technology in the marketplace quicker than we can.

Other technologies that may be indirectly competitive with the Company's engines are lithium-ion batteries and hydrogen fuel cells. Both these technologies, especially fuel cells, are in their early stages and it is difficult to determine how they would affect the Company's competitive position. For instance, batteries are useful for some applications where limited power (torque) and operating time is needed; however, they are in essence just "fuel tanks" which allow for power that is generated elsewhere (i.e., a coal-fired power plant) to be saved and transported. Fuel cells, while showing great potential promise, are really in their technological infancy and currently are much too expensive for many practical applications.

In the automotive world, the competition to develop an environmentally clean (zero emission) engine is being driven by increasingly stringent regulatory mandates. To date, Honda and Toyota have made the most advances in bringing to market "hybrid" vehicles that will meet current Environmental Protection Agency ("EPA") requirements. However, the hybrid-electric and hybrid-fuel cell vehicles that Toyota and Honda have introduced and continue to develop are suitable only for light load carrying small passenger vehicles. The hybrid-electric vehicles are running on internal combustion (I/C) engines on the highways, so there is no net gain. The hybrid-fuel cell vehicles, although able to maintain highway speeds for 3-4 hour periods, are still more costly than the premium priced hybrid-electric alternatives. Further, evidence is beginning to show that the fuel cells must be changed out at two-year intervals, costing between $2,000 and $6,000 per exchange. Moreover, these fuel cell vehicles require hydrogen, for which there is little or no distribution infrastructure. The cost to create this infrastructure is estimated to be $5 billion for California alone, and over $125 billion for the United States. Although hydrogen, when either used directly by the vehicles' engines or indirectly in fuel cells, produces minimal emissions, the costs of the energy required to produce and distribute it, referred to by economic analysts as "Well-to-Tank", far outweigh the apparent savings and advantages of the "Tank-to-Wheel" use of hydrogen as a fuel source.

In management's opinion, hybrids are an attempt to stretch the technological life span of the I/C engine that is reaching a point of diminishing returns in terms of emissions and fuel efficiency improvement. Those hybrid vehicles that operate without the 'auxiliary' I/C engine and run solely on batteries or fuel cells have short operating ranges, making them suitable only for localized, low-speed areas like core metro areas or gated communities.

While many manufacturers, including Chrysler, Ford and GM, are following Toyota and Honda's lead in developing hybrid vehicles, Honda alone has undertaken research in external combustion engines; however, an engineer on this project has conveyed to the Company that Honda has not progressed beyond the preliminary design stage of its external combustion engine.

Cyclone's Competitive Advantages

When compared directly with internal combustion (I/C) engines, the Cyclone engine has numerous competitive advantages. Total efficiencies are one. Preliminary data from bench tests have indicated that the Cyclone Engine operates at a fuel efficiency greater than gasoline fueled I/C engines that operate at about 20%-24% efficiency. Current multi-valve, turbo-diesel engines operate at about 30%-35% efficiency. Management is are confident that independent testing of the Company's medium power range 6-cylinder Cyclone Engine (Mark V) will verify that it will nearly match the thermal efficiency of current state-of-the-art diesels.

With resect to power output (torque), the Cyclone Engine develops full torque at initial start up (i.e., one rpm), not only obviating the need for a power absorbing transmission (5%-7% power loss), but also eliminating the need to idle, where I/C engines are most inefficient (and polluting).

In additional to efficiencies and power, the Cyclone Engine has numerous advantages over I/C engines, namely:

- Being an external combustion engine, the combustion occurs at far lower temperatures than conventional I/C engines, avoiding the peak temperatures that create nitrous compounds.
- The Cyclone Engine recirculates the fuel in its external combustion chamber until carbon particulate matter and sulfur dioxides are fully consumed.
- The Cyclone Engine can run on any liquid or gaseous fuel, making it relatively independent of shortages or price spikes in particular fuels; and can also be run on bio-fuels which can be 'home-grown' in rural areas or developing nations.
- The Cyclone Engine has fewer moving parts than its I/C counterparts rendering it less costly to manufacture and service. It requires no starter, radiator or transmission, making it yet lighter and simpler.
- The Cyclone Engine is small and compact relative to its power output, giving it a higher power to weight ratio than many of its counterparts.
- The heat it generates is 'harvested', conserved, and recycled within the engine, greatly lessening the heat expelled to the ambient environment, thus in the belief of management, greatly reducing its contribution to urban 'heat islands' and global warming in general.

E. **Sources and availability of raw material:** The Company purchases raw materials and components from multiple sources, none of which may be considered a principal or material supplier.

F. **Dependence on one or a few major customers:** The Company currently has four licensees of its engine technology: Phoenix Power Group LLC, Renovalia Energy, SA, Advent Power Systems, Inc., and Great Wall Alternative Power Systems, Inc.; and several other Development customers, such as Raytheon Company, Robotic Technology, and MEO Products (through Advent).

Each of its licensee and other development partners pursue different and unique applications for the Cyclone Engines. For instance, with Renovalia, the Company is building engines to power solar thermal parabolic collectors, and with Phoenix Power, the Company is building engines to power waste oil electric generators. Because of the diversification of applications, uses and business models, the Company does not believe that the loss of one licensee or development partner would have a material adverse impact on its current operations. Additionally, the Company is actively pursuing other licensees and development partners in other product categories (i.e., home generators, industrial machinery and equipment, etc.).

G. **Patents, trademarks, licenses, franchises, concessions, royalty agreements, or labor contracts, including their duration:**

The Company currently has the following patents issued and pending:

US Issued Patents
US Patent No. 7,080,512 B2 **Heat Regenerative Engine**
US Patent No. 7,407,382 B2 **Steam Generator in a Heat Regenerative Engine**
US Patent Allowance Notification for **Valve Controlled Throttle Mechanism**

Pending US Patent Applications
Centrifugal Condenser
Spider Bearing
Clearance Volume Valves in a Steam Engine
Engine Shrouding with Air to Air Exchanger
Engine Reversing and Timing Control
Pre-Heater Coil in a Heat Regenerative Engine
Waste Heat Engine

International Patents

Issued for Heat Regenerative Engine:

European Union	Australia
South Africa	Canada
Russia	China
Korea	Indonesia

Pending for the Heat Regenerative Engine:

Japan	India
Mexico	Brazil

Issued or Published Trademarks

Cyclone Power
Cyclone Power Technologies
WHE
WHE.Generation
Generation WHE

The Company's license agreements are detailed in **Item IX B** of this Report.

The Company is not party to any organized labor contracts.

H. **The need for any governmental approval of principal products or services and the status of any requested governmental approvals:** Other than the filing of patent applications with the respective governmental bodies, the Company is not aware of any approval or its products or services that may be required from government authorities. However, once the Company's technology has been placed into commercial applications, such as lawn mowers, automobiles and power generators, the governmental approval and regulatory process will become substantial. Each of such industries has many layers of regulatory requirements to ensure safety, environmental impact, usability and more. The Company believes that applicability of and compliance with such regulations and laws will be the responsibility of its individual licensees, as the manufacturers of the final products for sale. The Company has no present intention of manufacturing any of its own products for sale into the wholesale or retail markets.

Because of the Company's work with the military, it has filed to register with the U.S. Department of State under its International Trafficking in Arms Regulations (ITAR). The Company does not believe it develops, sells or exports any covered munitions under these Regulations, but has registered itself in an abundance of precaution.

Item X The nature and extent of the issuer's facilities

The Company currently operates in a leased warehouse facility owned by Schoell Marine, Inc., a company wholly-owned by the Company's CEO, Harry Schoell. Schoell Marine leases 6,000 sf of space to the Company at approximately $12/sf, ($72,000 per year) which it believes to be at or below market rates for industrial space in the area. The address of the Company's facility is:

601 NE 26th Ct.
Pompano Beach, FL 33064

PART D Management Structure and Financial Information

Item XI The name of the chief executive officer, members of the board of directors, as well as control persons.

A. Officers and Directors

Unless otherwise stated herein, the business address for each person names below is: 601 NE 26th Ct., Pompano Beach, FL, 33064.

Harry Schoell, Chairman and Chief Executive Officer, is a 65-year-old entrepreneur and technology visionary. Harry is a native Floridian, born in Miami, and a third generation inventor and engineer. Harry has worked for years to realize his dream to create an environmentally-friendly engine, and has two patents issued and 11 patents pending on the Schoell Cycle Heat Regenerative External Combustion Engine, now called the Cyclone Engine, as well as many other patents pending on the engine's components in the U.S. and internationally.

Harry is well versed in all facets of manufacturing procedure, including, appropriate foundry protocol, castings, machining, production design & manufacturing, and plastic and fiberglass laminates. In the 1960's, he participated in thermal dynamic testing on Rankine Cycle Engines which ultimately led to the creation of the Cyclone Engine. Harry also has extensive experience in designing, inventing and building unique boat hull designs and patented marine propulsion systems, through Schoell Marine, a company he founded in 1966 and still operates today, which provides design innovation to the marine and other industries.

Since founding Schoell Marine more than 40 years ago, Harry successfully built that company and its reputation based on his original ideas, highly trained engineers, skilled drafts people, and prototype and production specialists. Schoell Marine covers all facets of contemporary boat design and manufacturing. His inventiveness has resulted in over 40 specialized patents and patent applications, and Harry is known throughout the marine industry for his genius and is highly sought after for his knowledge and expertise. He is always thinking ahead and "outside the box". Harry also patented a Jet Drive System and a trimmable surface drive, as well as a "Ground Effect Craft" that would gently glide above the water using surface effect as the medium. Harry also holds patents on a lightweight yet powerful, compact internal engine that he designed and built in 1990.

Harry has won the Engineer of the Year Award and Designer of the Year Award from Vapor Trails Magazine. He has also been presented with four different Innovation of the Year Awards from the NMMA (National Marine Manufacturers Association): one for a multi-hull boat design, one for a surface drive propulsion system, one for marine engine conversion, and a final one for a stepped hull design. All designs were patented in recent years. Harry belongs to SAE (Society of Automotive Engineers), the ASME (American Society of Marine Engineers), and The Society of Naval Architects and Marine Engineers.

Mr. Schoell has no other Board of Directors affiliations other than with the Company.

Compensation and Stock Holdings

Mr. Schoell has an Employment Agreement with the Company providing for a base salary of $150,000 per year plus standard benefits. This compensation is currently being deferred until the Company has sufficient revenue to support its payment, and to date, Mr. Schoell has not received any compensation under his agreement. The term of Mr. Schoell's agreement is three years with automatic one-year renewals.

Mr. Schoell currently beneficially owns 16,094,150 shares of the Company's common stock, 241,285 shares of Series A Preferred Stock, and 797 shares of Series B Preferred Stock. Additionally, he has the following stock options:

Number of Options	Term	Vesting Exercise	Price
250,000	10 yrs	Vested	$0.25
125,000	10 yrs	Vested	$0.35
125,000	10 yrs	Vested	$0.45

Frankie Fruge serves as Chief Operating Officer and Director of Cyclone. She has been with the company since its inception in 2004 in the role of General Partner and Director of Administration. Frankie is in charge of the daily operations and financial concerns of the Company.

Frankie has been working with Harry Schoell since 1995, serving in multiple administrative, operational and financial positions with Schoell Marine. Between 1999 and 2003, Frankie was President of Propulsion Systems, Inc., a company that developed and sold marine surface drives; and then CFO of Pulse Drive Inc., between 2003 and 2005, a company also in the marine propulsion field.

Prior to her career in marine-based engine technology, Frankie spent over 10 years as an operating engineer for several oil refinery companies in Louisiana, including Conoco, and eight years as an auditor for Ernst & Ernst (the predecessor company to Ernst & Young). Ms. Fruge is also a certified industrial firefighter, and is on the Board of the Steam Automobile Club of America. Ms. Fruge has no other Board of Directors affiliations.

Compensation and Stock Holdings

Ms. Fruge has an Employment Agreement with the Company providing for a base salary of $120,000 per year plus standard benefits. This compensation is currently being deferred. The term of Ms. Fruge's agreement is three years with automatic one-year renewals.

Ms. Fruge currently beneficially owns 5,134,822 shares of the Company's common stock, 60,131.67 shares of Series A Preferred Stock, and 203 shares of Series B Preferred Stock. Additionally, she has the following stock options:

Number of Options	Term	Vesting Exercise	Price
250,000	10 yrs	Vested	$0.25
125,000	10 yrs	Vested	$0.35
125,000	10 yrs	Vested	$0.45

James Landon serves as Director of Cyclone. As President of Landon & Associates P.A., Mr. Landon has been the company's accountant of record for over four years. He is a member of the American Institute of Certified Public Accountants and its Business Valuation and Forensic & Litigation Services Section, a member of the Florida Institute of Certified Public Accountants and its Valuation, Forensic Accounting and Litigation Services Section. He is also a member of the Association of Certified Fraud Examiners.

Mr. Landon also has considerable experience in the manufacturing world, holding positions for several companies over the years as vice president of operations, vice president of finance and administration, chief financial officer and president. Mr. Landon received his Bachelor of Engineering Science from The Johns Hopkins University, and his Master of Science in Administration with a concentration in Business Financial Management from The George Washington University.

Compensation and Stock Holdings

Mr. Landon has no separate employment agreement with the Company; however, his firm Landon & Associates is retained as the Company's accountants.

Mr. Landon currently beneficially owns 1,150,000 shares of the Company's common stock.

Board of Directors

The Company's directors at this time Harry Schoell, CEO, Frankie Fruge, COO, and James Landon. Board of Director members may be compensated for their time in cash or restricted shares of common stock, as may be provided under the independence requirements of current securities laws.

The Company has no Audit Committee, Compensation Committee or other committees at this time. The Company expects to create such committees in the future.

Board of Advisors

The Company, from time to time, adds members to its Board of Advisors. These individuals are comprised of distinguished scientists, engineers and businessmen whose experience, knowledge and counsel help in the development of the Company and its technology. These Board of Advisor members may be compensated for their time in restricted shares of common stock. Currently, the Board of Advisors is comprised of:

James D. Crank, a retired engineer with Lockheed and one of the foremost experts on automotive steam engine systems. During his long year career with Lockheed, Mr. Crank worked in senior research positions on many important projects, including: engine development for the Ground Vehicles Department, primary battery systems for the Triton II missile, battery systems for the Hubbell Space Telescope, heat shields for the Mercury and Apollo space systems, and dynamic solar and nuclear space power systems for SDI. Mr. Crank was also a Research Engineer for the Stanford Research Institute where he worked on explosive cladding of materials for cylinder construction in Porsche and Mercedes-Benz, among other projects.

Mr. Crank also has over 50 years experience in restoration, repair and driving of various steam cars, including the total redesign of the complete Doble crankcase assembly and cylinders for the Series E Doble steam cars (with 10 sets constructed), and the design and construction of the current speed world record holding steam car. He served as a consultant on steam car restoration to Harrah Automobile Collection, Nethercutt Collection, Jay Leno Collection, Stephen Finn Collection, and the Besler General Motors Chevelle steam car, among others; and a consultant to the State of California on the steam bus development program. He is the owner and president of Doble Steam Motors Corporation, and is currently working on a book about the history of the Doble steam car and its founding family.

Jerry A. Peoples, a retired NASA engineer with over 30 years service in the government's most elite scientific divisions. Mr. Peoples' work with NASA spans over 30 years. Most recently, after the 1986 Space Shuttle Challenger disaster, Mr. Peoples was assigned to the Solid Motor Redesign Team, where he made major contributions to the design, fabrication and testing of the Double O-ring Interference Joint, which solved the O-ring burn problem.

Mr. Peoples' work at NASA also included participation on a governmental energy task force studying solar heating and cooling, ocean thermal electric energy conversion, and the Rankine Cycle as an alternative to the internal combustion engine. On this last subject, he published over 12 research papers on the design and operation of the modern steam powered automobile.

Early in his career, Mr. Peoples served at the Marshall Space Flight Center as project engineer responsible for thermal control systems for orbiting spacecraft such as the Hubble Telescope, HEAO-1, and Gravity Probe B. Prior to that, he worked at the Wright Patterson Air Development Center on the F-105 aircraft.

Robert Edwards is a retired senior engineer from Lockheed Martin. Mr. Edwards served at Lockheed Martin for over 30 years, working on different projects including the Apollo Moon Project and other space programs. His area of expertise is in energy conversion systems, including thermoelectric, steam, internal combustion and external combustion engines. Mr. Edwards has also spent over 20 years working with experimental steam cars and other steam systems, and is an officer of the Mobile Steam Society in Tennessee. He has published over 40 scientific papers and now gives talks on the subjects of alternative fuels and heat transfer systems. He holds a B.S. from the University of Tennessee.

George Nutz is technology consultant with almost 50 years experience working with external combustion and steam engines. He is the founder of Millennium Engineering Systems and Millennium Energy Systems, through which he has provided engineering guidance and expertise to multiple external combustion engine projects over the last twenty years.

Prior to consulting, Mr. Nutz was a staff research engineer at MIT Instrumentation Laboratory, part of the Department of Aeronautics and Astronautics. While in residence, he designed hardware and control systems, as well as steam cycles and applications. He represented MIT-IL at the Department of Transportation Clean Air / External Combustion hearings, and wrote several proposal papers outlining a working steam system. During this time he also became involved with steam automobile and steamboat groups and worked on boiler and engine designs/modifications, including being part of the MIT team designing and building a steam powered automobile for Saab for the MIT-Caltech "Clean Air Car Race".

Prior to his time at MIT, Mr. Nutz spent nine years at Bendix Aerospace designing gyro and guidance equipment and test platforms, and working with optics and sensors. He served in the U.S. Air Force and received his mechanical engineering degree from the New Jersey Institute of Technology in 1959.

Allen Brown, an engineer whose experience spans over 56 years in the marine industry where he has developed propulsion, hydraulic, electrical and exhaust systems for some of the best known names in the business. Over the years, Mr. Brown has served as: Director of Product Development for Cigarette Racing Team; President and CEO of Cougar Marine, which built powerboats that won 33 consecutive offshore races including 12 World and National Championships; Director of Product Development for Stainless Marine; Project Engineer for Gentry Transatlantic on the "Gentry Eagle," a 113' mega-yacht that held the transatlantic speed crossing record; Product Development Consultant for Teleflex Marine; and General Manager of Donzi Marine.

Mr. Brown is widely regarded as a mechanical genius. Pete Smythe, Editor of Motorboating Magazine, wrote: "Brownie is generally considered to have more engineering moxie than anyone else in the high performance boat business." Hotboat Magazine wrote that "Brownie's experience in the business is second to none, with almost 50 years of high performance expertise in building, driving and designing every part of a raceboat." Powerboat Magazine called Brownie a "mechanical wizard".

Compensation to Advisors

The Company has compensated its Board of Advisors members shares of the Company's restricted common stock each for their past services rendered on behalf of Cyclone, and reserves the right to issue additional shares, stock options or cash in the future.

B. Legal/Disciplinary History

None of the Company's Officer or Directors, as listed above, has in the last five years been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations or other minor offenses);

2. The entry of an order, judgment or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities or banking activities;

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended or vacated; or

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.

C. Disclosure of Certain Relationships: None.

D. Disclosure of Related Party Transactions

The Company has an Operations Agreement with Schoell Marine, a company owed by Harry Schoell, to provide some turnkey operations, including office facility rental and equipment leasing, based upon cost and going market rates. This arrangement began being phased-out in 2008; however, at December 31, 2009, the Company owed to Schoell Marine $531,618, which is booked as debt. The debt is callable at the discretion of Mr. Schoell and is secured by a perfected security interest on the Company's patent and patent applications for the heat-regenerative external combustion engine. The Company currently rents office space from Schoell Marine under this agreement at approximately $12.00/sf, which it believes to be at or below comparable market rates.

E. Disclosure of Conflict of Interest

Other than as described in Section D above, the Company knows of no reportable conflicts of interest.

Item XII Financial Information for the Issuer's most recent fiscal period

Financial Statements for the period ended December 31, 2009 have been attached to the end of this Annual Report and are ordered as follows:

Item XIII Similar financial information for the two preceding fiscal years

Information required by this Item XIII has been included in the Financial Statements provided in response to Item XII.

Item XIV Beneficial Owners

Common Shares

The following table sets forth information regarding the beneficial ownership of the Company's Common Stock by each member of the Company's Executive Management, Board of Directors and each Shareholder who is known by the Company to own beneficially five percent (5%) or more of the outstanding Common Shares as of December 31, 2009. On this date, 103,699,113 shares of common stock were issued and outstanding.

Name and Address	**Number of Common Shares Beneficially Owned**	**Percentage of Common Shares Beneficially Owned**
Harry Schoell, Chairman & CEO 601 NE 26th Ct. Pompano Beach, FL 33064	16,958,678	16.35%
Frankie Fruge, COO & Director 601 NE 26th Ct. Pompano Beach, FL 33064	5,134,822	4.95%
James Landon, Director 4401 N Federal Hwy Boca Raton, FL 33431	1,150,000	1.11%
TOTALS:	23,243,500	22.41%

Series A Convertible Preferred Shares

The following table sets forth information regarding the beneficial ownership of the Company's Series A Convertible Preferred Stock by each Shareholder who is known by the Company to own beneficially five percent (5%) or more of the outstanding Series A Preferred Shares as of December 31, 2009. As of that date, 540,000 shares of Series A Preferred Stock were issued and outstanding.

Name and Address	**Number of Series A Pref. Shares Beneficially Owned**	**Percentage of Series A Pref. Shares Beneficially Owned**
Harry Schoell, Chairman & CEO 601 NE 26th Ct. Pompano Beach, FL 33064	241,285	44.68%
Frankie Fruge, COO 601 NE 26th Ct. Pompano Beach, FL 33064	60,131.67	11.14%

Name and Address	Number of Series A Pref. Shares Beneficially Owned	Percentage of Series A Pref. Shares Beneficially Owned
Michael Hodgson, Chief Engineer 601 NE 26th Ct. Pompano Beach, FL 33064	30,390	5.53%
Shelby Wilson 461 Smulton Rd. Rebersburg, PA 16872	37,581.67	7.52%
TOTALS:	372,754.34	69.03%

Series B Preferred Shares

The following table sets forth information regarding the beneficial ownership of the Company's Series B Preferred Stock by each Shareholder who is known by the Company to own beneficially five percent (5%) or more of the outstanding Series B Preferred Shares as of December 31, 2009.

Name and Address	Number of Series B Pref. Shares Beneficially Owned	Percentage of Series B Pref. Shares Beneficially Owned
Harry Schoell, Chairman & CEO 601 NE 26th Ct. Pompano Beach, FL 33064	797	79.7%
Frankie Fruge, COO 601 NE 26th Ct. Pompano Beach, FL 33064	203	20.3%

Item XV The names, address, telephone number and email address of each of the following outside providers and advise the issuer or matters relating to the operations, business development and disclosure:

1. **Investment Banker:** None.

2. **Promoters:** None.

3. **Counsel:**
Law Office of Christopher Nelson
Christopher Nelson, Esq.
1182 Canoe Point
Delray Beach, FL 33444
(305) 439-5559
chris@cnelsonlegal.com

4. **Accountants**
Baum & Company, P.A.
Joel Baum
605 Lincoln Rd., Suite 210
Miami Beach, FL 33139
1-888-CPA 3770
joel@jbaumcpa.com

Baum & Co. provides accounting and review services for the Company's public filings. The firm does not audit the Company's financials. It is the Company's responsibility to perform daily accounting functions which are then reviewed by the accounting firm for accuracy and compliance with GAAP, and compiled in a format required for filing.

Joel Baum, is a CPA with a BS in accounting and MS degree in taxation. He serves on the FICPA state committee for auditing and accounting standards. Baum & Co is a registered PCAOB accounting firm.

Landon & Associates
James Landon
4401 N Federal Hwy, Ste 202
Boca Raton, FL 33431
561-391-4848
jlandon@landoncpa.com

Landon & Associates assists the Company with general accounting functions, including daily bookkeeping. The firm does not audit the Company's financials and does not prepare public filings.

James Landon is a member of the American Institute of Certified Public Accountants and its Business Valuation and Forensic & Litigation Services Section, a member of the Florida Institute of Certified Public Accountants and its Valuation, Forensic Accounting and Litigation Services Section. He is also a member of the Association of Certified Fraud Examiners. Mr. Landon is a member of the Company's Board of Directors.

Auditor
Mallah Furman P.A.
Brickell Bay Office Tower
1001 Brickell Bay Drive, Suite 1400
Miami, Florida 33131-4938
Main Phone: 305-371-6200
Fax: 305-371-8726

Mallah Furman has been retained to conduct the Company's audit for the years ended December 31, 2008 and 2009. The firm is a member of the Public Company Accounting Oversight Board (PCAOB), American Institute of Certified Public Accountants (AICPA), Florida Institute of Certified Public Accountants (FICPA), and JHI.

5. **Public Relations Consultant**
Will Wellons
Red Letter Group
452 Osceola St. Ste. 202
Altamonte Springs, FL 32701
(407) 339-0879
will@redletterpr.com

6. **Investor Relations Consultant:**
Robert Weidenbaum
1300 Coral Way # 308
Miami, FL 33145-2934
(305) 860-3307

7. **Other Advisors:** None

Item XVI Management's Discussion and Analysis or Plan or Operation

While the Company started to generate revenue from its operations as early as 2008, it has not had material or consistent revenue in each of the last two fiscal years. In order for the Company to maintain and expand its operations through the next 12 months, it must:

1. Continue to raise through capital infusions, either by means of equity or debt offerings, a minimum of $1 million and up to $5 million; or

2. Continue to secure license and development agreements that provide up-front fees or guaranteed royalties, in a minimum amount of $1 million and up to $5 million.

As shown in the accompanying financial statements, the Company incurred substantial net losses for the years ended December 31, 2009 and 2008 of $2,525,101, and $2,224,894, respectively. Cumulative losses since inception are $7,884,328. The Company has a working capital deficit at December 31, 2009 of $1,886,841. There is no guarantee whether the Company will be able to generate enough revenue and/or raise capital to support its operations. This raises substantial doubt about the Company's ability to continue as a going concern. If such funds cannot be raised or otherwise generated, the Company may be forced to reduce staff, minimize its research and development activities, or in a worst case scenario, shut-down operations. However, management is cautiously optimistic that they can improve operations and raise the appropriate funds to grow their underlying business. As explained below, the Company is currently raising working capital to fund its operations via private placements of common and preferred stock, and has ongoing and pending contracts that are expected to generate operating cash. Currently, management believes that the Company has cash reserves and cash commitments to sustain operations through the end of the third quarter of 2010.

Private Placements. In 2009 the Company sold 8,247,597 shares of restricted common stock in private placements under Regulation D and Regulation S of the Securities Act of 1933, as amended, for $1,007,251 which was used for general administrative, research and development, and marketing activities.

Subsequent Private Placement. In March 2010, the Company commenced an offering of 200,000 shares of its Series A Convertible Preferred Stock at a price per share of $5.00. Management anticipates closing this offering by the middle of May 2010, and believes the proceeds of up to $1,000,000 will be sufficient, when combined with revenue from current contracts, to maintain operations through the middle of 2011.

Stock for Services. Despite its limited cash resources, the Company is able to retain engineering, consulting, legal and accounting personnel partially through the issuance of restricted common stock. In 2009, the Company issued 7,422,900 shares of restricted stock in lieu of $893,685 in cash compensation. Management believes that the agreement of these individuals to forego some or all of their agreed upon cash compensation for shares of restricted common stock demonstrates a strong dedication and long-term commitment to the Company, its technology and its future prospects.

Research & Development. As a research and development company, a material portion of all funds raised or generated through operations are placed back into the R&D activities of the Company. The Company's R&D expenditures were $1,115,795 for the fiscal year 2009. The Company also spent $125,035 on U.S. and international patent filings during the year.

Commitments for Capital Expenditures. In 2009 the Company acquired $27,401 of property and equipment via capitalized lease obligations. It does not immediately anticipate a further purchase of facilities or significant equipment; however, should additional funding be secured, some proceeds will be used to purchase capital equipment used for development and testing of its technology. Additionally, should adequate funding be secured, the Company expects to increase the number of skilled and unskilled employees on payroll, including the recruitment of high level executive management and additional engineers and mechanical staff. Such new hires will considerably increase the Company's monthly operational expenses.

License Agreements. During 2009, the Company consummated a two important License Agreements, one with Renovalia Energy SA, of Madrid, Spain, and a second with Phoenix Power Group, LLC, of Memphis, TN. The consummation of these licenses, together with several smaller license and development agreements signed in 2009 and several more pending as of the date of this Annual Report are expected to provide the Company with material fees over the next 12 months and strong positioning in the rapidly growing renewable power field.

Renovalia License. Renovalia is one of the leading renewable energy companies in the world with over 500 MW of alternative power currently in its portfolio, including the largest photovoltaic solar power farm in the world. The license with Renovalia provides them with exclusive worldwide rights to manufacture and use the Cyclone Engines with their solar thermal solutions. Currently, the Company is developing with Renovalia a compact heat-regenerative engine (called Cyclone Solar I) to be coupled with their concentrating systems. For this right, Cyclone will initially receive $550,000 in development fees as work progresses (the first two payments totaling $250,000 were received in 2009 and recorded as deferred revenue), and then on-going royalties on each Cyclone Solar I engine produced. Renovalia has agreed to pay minimum royalties over the life of the agreement in an amount over $3 million. The Company has also issued to Renovalia a stock purchase warrant for eight million shares of restricted common stock, which vests upon the completion of the first two Cyclone Solar I prototypes by Renovalia and terminates 12 months thereafter. The warrant is exercisable at a strike price of $.25 per share.

Phoenix Power Group License. The Company's license with Phoenix Power Group provides them with the exclusive North American and Australian rights to utilize Cyclone Engines for power generators utilizing waste oil fuels, such as used automotive motor oil.

Under its license, Phoenix will pay the Company $400,000 in license and development fees as work progresses, $225,000 of which was received as of the date of this Annual Report, and then on-going royalties on each Cyclone Engine produced. Phoenix has agreed to pay minimum royalties over the life of the agreement in an amount exceeding $4 million in order to maintain its exclusive rights. The Company has also issued to Phoenix a stock purchase warrant for a number of shares of common stock equal to two percent of the total issued and outstanding common stock of the Company, which vests upon the delivery of the first two prototype Cyclone Mark V Engines to Phoenix and payment by Phoenix of the full $400,000 license fee, and terminates 24 months thereafter. Currently this warrant would be exercisable into approximately 2 million shares and is exercisable at a strike price of $.19 per share.

Results of Operations

<u>Year Ended December 31, 2009 Compared to Year Ended December 31, 2008</u>

Revenues. Revenues for the year ended December 31, 2009 were $63,938 as compared to $45,000 for the prior year, an increase of $18,938 or 42%. This increase is due to 2009 license fee income and higher consulting and design revenues.

Gross Profit. Gross profit for the year ending December 31, 2009 was $28,003 as compared to $9,054 for the year ending December 31, 2008, an increase of $18,949. For the year ending December 31, 2009, the Company’s gross margin was 44% as a percentage of net sales versus 20% in 2008. This improvement in gross profit was reflective of a 2008 contract loss provision.

Operating Expenses. Operating Expenses incurred for the year ending December 31, 2009 were $2,515,246 as compared to $2,191,263 for the year ending December 31, 2008, an increase of $323,983 (15%). The majority of the increase was due to $249,415 (29%) higher R&D spending to $1,115,795 and greater general and administration expenses of $107,346 (9%), largely due to stock issued for consulting and higher professional services in recognition of public reporting.

Other Expenses. In 2009 the Company recognized $10,387 of income upon debt forgiveness pursuant to converting debt into common stock.

Income and Earnings per Share. The net loss for the year ending December 31, 2009 was ($2,525,101), compared to net loss of ($2,224,894) for the year ending December 31, 2008, a higher loss of ($300,207) or 13%. This variance is due to the factors outlined above. Net loss per weighted average share was ($0.03) for both years.

Liquidity and Capital Resources

At December 31, 2009, net working capital was negative ($1,848,661) as compared with ($1,202,912) at December 31, 2008, a decrease of ($683,929) or 57%. In 2009, funds were used by the net loss of $2,525,101, expenditures for patents of $125,035 and an increase in inventory of $122,712 and net repayment of loans of $75,060. Funds were provided by the sale of 8,247,597 shares of common stock for $1,007,251, an increase in deferred revenue of $575,964 and net higher related party loans (primarily deferred and accrued officers' salary) of $304,008. Additionally, to conserve cash, the company issued 7,422,900 shares of common stock, valued at $893,685 for services.

If the Company needs to obtain capital, no assurance can be given that it will be able to obtain this capital on acceptable terms, if at all. In such an event, this may have a materially adverse effect on the Company's business, operating results and financial condition. If the need arises, the Company may attempt to obtain funding or pay expenses through the continued sale or issuance of restricted stock. The Company may also use various types of short term funding, related party advances and expenses payment deferrals and external loans. Management is cautiously optimistic that it will be able to generate the funding required to continue and expand its operations over the long term, and believes that it currently has cash reserves and cash commitments available to fund operations through the end of the year or longer.

Off-Balance Sheet Arrangements. The Company does not have any off-balance sheet arrangements at this time.

PART E **Issuance History**

Item XVII List of securities offerings and shares issued for services in the past two years.

The following table lists all offerings and issuances of shares of the Company's common stock from January 1, 2008 until December 31, 2009. To the extent that the individual/entity to which shares were issued owned at such time 5% or greater of the common stock of the Company, under Pink Sheet Disclosure requirements, the individual or controlling party(ies) of a corporate entity has also been disclosed, to the best of the Company's knowledge.

Q4 2009

Date	# of Shares	Amount Paid	Nature of Offering	Trading Status/Restrictions
12/31/09	2,275,000	$200,200	Services Rendered	Restricted as per Rule 144
12/31/09	284,090	$25,000	Regulation S	Restricted as per Reg S/144
12/14/09	482,727	$52,505	Regulation S	Restricted as per Reg S/144
12/01/09	117,500	$10,575	Services Rendered	Restricted as per Rule 144
11/1309	1,500,000	$7,500	Note Conversion	Restricted as per Rule 144
11/13/09	593,153	$56,435	Regulation D/S	Restricted as per Rule 144
11/1/09	317,400	$28,958	Services Rendered	Restricted as per Rule 144
10/01/09	200,000	$18,800	Services Rendered	Restricted as per Rule 144

Q3 2009

Date	# of Shares	Amount Paid	Nature of Offering	Trading Status/Restrictions
9/29/09	350,000	$47,880	Services Rendered	Restricted as per Rule 144
9/29/09	250,000	$34,200	Regulation S	Restricted as per Reg S/144
9/15/09	100,000	$15,400	Services Rendered	Restricted as per Rule 144
9/01/09	170,000	$27,200	Services Rendered	Restricted as per Rule 144
8/31/09	130,000	$20,800	Regulation D/S	Restricted as per Reg S/144
8/14/09	100,000	$15,400	Services Rendered	Restricted as per Rule 144
8/01/09	100,000	$16,000	Services Rendered	Restricted as per Rule 144
7/31/09	2,000,000	$10,000	Note Conversion	Restricted as per Rule 144
7/31/09	535,902	$66,905	Regulation D	Restricted as per Rule 144
7/15/09	100,000	$15,400	Services Rendered	Restricted as per Rule 144
7/01/09	1,012,588	$162,014	Stock for Settlement	Restricted as per Reg 144
7/01/09	392,000	$62,720	Services Rendered	Restricted as per Rule 144

Q2 2009

Date	# of Shares	Amount Paid	Nature of Offering	Trading Status/Restrictions
6/25/09	191,875	$31,250	Regulation D/S	Restricted as per Reg S/144
6/15/09	150,000	$30,000	Services Rendered	Restricted as per Rule 144
6/04/09	280,639	$22,319	Regulation S	Restricted as per Reg S/144
6/04/09	2,000,000	$10,000	Note Conversion	Restricted as per Rule 144
6/01/09	325,000	$65,000	Services Rendered	Restricted as per Rule 144
5/15/09	140,000	$28,000	Services Rendered	Restricted as per Rule 144
5/15/09	447,500	$49,870	Regulation D	Restricted as per Rule 144
5/04/09	480,000	$96,000	Services Rendered	Restricted as per Rule 144
4/24/09	1,710,328	$226,000	Regulation D	Restricted as per Rule 144
4/16/09	85,725	$16,645	Regulation S	Restricted as per Reg S/144

Q1 2009

Date	# of Shares	Amount Paid	Nature of Offering	Trading Status/Restrictions
3/23/09	530,000	$80,400	Regulation D/S	Restricted as per Reg S/144
3/1/09	75,000	$15,000	Services Rendered	Restricted as per Rule 144
2/27/09	868,393	$141,300	Regulation D/S	Restricted as per Reg S/144
2/17/09	121,000	$21,440	Services Rendered	Restricted as per Rule 144
2/17/09	402,900	$68,000	Regulation D	Restricted as per Rule 144
2/3/09	804,365	$80,750	Regulation D	Restricted as per Reg S/144
1/27/09	255,000	$28,050	Services Rendered	Restricted as per Rule 144
1/27/09	650,000	$72,500	Regulation D	Restricted as per Rule 144
1/5/09	155,000	$16,662	Services Rendered	Restricted as per Rule 144

FY 2008

Date	# of Shares	Amount Paid	Nature of Offering	Trading Status/Restrictions
12/31/08	320,000	$6,400	Services Rendered	Restricted/Rule 144 Legend
12/31/08	531,000	$45,600	Regulation D	Restricted/Rule 144 Legend
11/25/08	385,001	$23,100	Regulation D	Restricted/Rule 144 Legend
11/25/08	2,612,000	$52,240	Services/Annual Bonuses	Restricted/Rule 144 Legend
10/20/08	1,000,000	$3,000	Conversion of Debt	Restricted/Rule 144 Legend
10/6/08	100,000	$2,000	Services Rendered	Restricted/Rule 144 Legend
9/30/08	215,000	$19,350	Services Rendered	Restricted/Rule 144 Legend
9/30/08	1,514,625	$136,316	Liability Conversion (1)	Restricted/Rule 144 Legend
9/15/08	850,000	$169,875	Regulation S	Restricted/Reg S,144 Legend
9/03/08	125,000	$20,000	Services Rendered	Restricted/Rule 144 Legend
8/29/08	154,320	$25,000	Regulation D	Restricted/Rule 144 Legend
8/14/08	150,000	$22,558	Regulation S	Restricted/Reg S,144 Legend
8/14/08	1,424,242	$199,394	Liability Conversion (2)	Restricted/Rule 144 Legend
8/14/08	155,000	$21,700	Services Rendered	Restricted/Rule 144 Legend
7/15/08	3,000,000	$420,000	Services Rendered	Restricted/Rule 144 Legend
5/14/08	4,315,307	$287,572	Regulation D	Restricted/Rule 144 Legend
4/29/08	300,734	$21,868	Services Rendered	Restricted/Rule 144 Legend
4/10/08	3,288,462	$149,806	Regulation S	Restricted/Reg S,144 Legend
4/1/08	336,901	$20,500	Conversion of Debt	Restricted/Rule 144 Legend
4/1/08	175,000	$3,500	Services Rendered	Restricted/Rule 144 Legend
1/15/08	240,000	$4800	Services Rendered	Restricted/Rule 144 Legend
1/1/2008	150,000	$3,000	Services Rendered	Restricted/Rule 144 Legend

(1) Conversion of deferred salary to officers/employees of the Company including 1,200,000 shares to Frankie Fruge, COO and Director.

(2) Conversion of deferred salary to employees of the Company.

PART F <u>Exhibits</u>

Item XVIII **Material Contracts:** The following material contracts have been previously filed or described in this or past filings, and are hereby incorporated by reference:

Technology License Agreement between the Company and Renovalia Energy S.A., dated May 4, 2009, the material terms of which are described in Item 4 of the Company's Quarterly Report for the period ended June 30, 2009: "Management's Discussion and Analysis – License Agreements".

Systems Application License Agreement between the Company and Waste Heat Resources Inc., dated April 18, 2009, the material terms of which are described in Item 4 of the Company's Quarterly Report for the period ended June 30, 2009: "Management's Discussion – License Agreements".

Systems Application License Agreement between the Company and Phoenix Power Group LLC, dated July 30, 2009, the material terms of which are described in Item 4 of the Company's Quarterly Report for the period ended September 30, 2009: "Management's Discussion and Analysis – License Agreements".

Technology License Agreement between the Company and Great Wall Alternative Power Systems, Ltd, dated December 17, 2009, the material terms of which are described in Item IX. B. of this Annual Report.

Employment Agreement for Harry Schoell, CEO, filed with the Company's Initial Information and Disclosure Statement, dated May 12, 2008.

Employment Agreement for Frankie Fruge, COO, filed with the Company's Initial Information and Disclosure Statement, dated May 12, 2008.

Item XIX Articles of Incorporation and Bylaws

The Company has previously filed its Articles of Incorporation and Bylaws with the Pink Sheets, as of August 27, 2007, and incorporates said filings by reference herein.

Amendment to Articles of Incorporation, dated July 24, 2009, filed concurrently with the Company's Quarterly Report for the period ended June 30, 2009.

Amendment to Articles of Incorporation, dated March 30, 2010, filed concurrently herewith.

Item XX Purchases of Equity Securities by the Issuer and Affiliated Purchasers. None

Item XXI Issuer's Certifications

I, Harry Schoell, CEO of Cyclone Power Technologies, Inc., certify that:

1. I have reviewed the Annual Report for the period ended December 31, 2009, of Cyclone Power Technologies, Inc.
2. Based upon my knowledge, this Annual 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 Annual Report; and
3. Based upon my knowledge, the financial statements and other financial information included or incorporated by reference in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Annual Report.

April 5, 2010

Harry Schoell
CEO & Chairman

I, Frankie Fruge, COO and Controller of Cyclone Power Technologies, Inc., certify that:

1. I have reviewed the Annual Report for the period ended December 31, 2009, of Cyclone Power Technologies, Inc.
2. Based upon my knowledge, this Annual 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 Annual Report; and
3. Based upon my knowledge, the financial statements and other financial information included or incorporated by reference in this Annual Report fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Annual Report.

April 5, 2010

Frankie Fruge
COO & Controller

CYCLONE POWER TECHNOLOGIES, INC.
(f/k/a Coastal Technologies, Inc.)
FINANCIAL STATEMENTS
December 31, 2009 and 2008

Mallah Furman

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Cyclone Power Technologies, Inc.

We have audited the accompanying balance sheets of Cyclone Power Technologies, Inc. (the "Company") as of December 31, 2009 and 2008, and the related statements of operations, stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cyclone Power Technologies, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company's dependence on outside financing, lack of sufficient working capital, and recurring losses raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Mallah Furman

Fort Lauderdale, Florida
April 1, 2010

mallahfurman.com

Brickell Bay Office Tower 1001 Brickell Bay Drive, Suite 1400, Miami, Florida 33131 Phone: 305.371.6200 Fax: 305.371.8726

Broward Office 8211 W. Broward Blvd., Suite 340, Ft. Lauderdale, Florida 33324 Phone: 954.475.3199 Fax: 954.472.4500

Member American Institute of Certified Public Accountants • Florida Institute of Certified Public Accountants

Cyclone Power Technologies
(f/k/a Coastal Technologies, Inc.)
Balance Sheets
December 31, 2009 and 2008

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 28,558	$ 1,366
Accounts receivable	-	87,245
Inventory	140,841	18,129
Other current assets	6,628	-
Total current assets	176,027	106,740
PROPERTY AND EQUIPMENT		
Furniture, fixtures, and equipment-net	108,244	47,880
Less: Accumulated depreciation	(30,114)	(11,624)
Net property and equipment	78,130	36,256
OTHER ASSETS		
Patents, trademarks and copyrights	405,220	308,651
Less: Accumulated amortization	(51,092)	(25,101)
Net patents, trademarks and copyrights	354,128	283,550
Other assets	8,146	353
Total other assets	362,274	283,903
Total Assets	$ 616,431	$ 426,899
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Notes and other loans payable	$ 20,950	$ 76,010
Notes and other loans payable-related parties	627,900	639,303
Capitalized lease obligations-current portion	10,798	-
Accounts payable and accrued expenses	133,271	154,362
Accounts payable and accrued expenses-related parties	677,438	373,430
Deferred revenue	525,000	61,511
Accrued contract loss provision	5,036	5,036
License deposit	62,475	-
Total current liabilities	2,062,868	1,309,652
NON CURRENT LIABILITIES		
Capitalized lease obligations-net of current portion	7,285	-
Total non-current liabilities	7,285	-
Total liabilities	2,070,153	1,309,652
STOCKHOLDERS' DEFICIT		
Series A convertible preferred stock, $.0001 par value, 750,000 shares authorized, 540,000 and 500,000 shares issued and outstanding at December 31, 2009 and 2008, respectively	54	50
Series B preferred stock, $.0001 par value, 1,000 shares authorized, 1,000 shares issued and outstanding	-	-
Common stock, $.0001 par value, 1,000,000,000 shares authorized, 103,699,133 and 83,016,048 shares issued and outstanding at December 31, 2009 and 2008, respectively	10,369	8,302
Additional paid-in capital	6,438,183	4,468,122
Preferred stock subscription receivable	(18,000)	-
Accumulated deficit	(7,884,328)	(5,359,227)
Total stockholders' deficit	(1,453,722)	(882,753)
Total Liabilities and Stockholders' Deficit	$ 616,431	$ 426,899

The accompanying notes are an integral part of the financial statements

Cyclone Power Technologies Inc.
(f/k/a Coastal Technologies, Inc.)
Statements of Operations
For the Years Ended December 31, 2009 and 2008

	2009	2008
REVENUES	$ 63,938	$ 45,000
COST OF GOODS SOLD	35,935	35,946
Gross Profit	28,003	9,054
OPERATING EXPENSES		
Advertising and promotion	66,694	99,472
General and administrative	1,332,757	1,225,411
Research and development	1,115,795	866,380
Total operating expenses	2,515,246	2,191,263
Operating loss	(2,487,243)	(2,182,209)
OTHER INCOME (EXPENSE)		
Other income	10,387	-
Interest expense	(48,245)	(42,685)
Total other expense, net	(37,858)	(42,685)
Loss before income taxes	(2,525,101)	(2,224,894)
Income taxes	-	-
Net loss	$ (2,525,101)	$ (2,224,894)
Net loss per common share, basic	$ (0.03)	$ (0.03)
Weighted average number of common shares outstanding	95,553,636	72,434,928

The accompanying notes are an integral part of these financial statements

Cyclone Power Technologies Inc.
(f/k/a Coastal Technologies, Inc.)
Statements of Stockholders' Deficit
For the Years Ended December 31, 2009 and 2008

	Preferred Stock A		Preferred Stock B		Common Stock		Additional Paid In	Preferred Stock Subscription	Accumulated	Total Stockholders
	Shares	Value	Shares	Value	Shares	Value	Capital	Receivable	(Deficit)	(Deficit)
Balance, December 31, 2007	500,000	$ 50	1,000	$ -	61,648,436	$ 6,165	$2,616,230	$ -	$(3,134,333)	$ (511,888)
Issuance of restricted shares for services	-	-	-	-	7,915,197	792	756,792	-	-	757,584
Sale of common stock	-	-	-	-	9,994,824	999	715,793	-	-	716,792
Conversion of debt and liabilites to common stock	-	-	-	-	3,457,591	346	348,397	-	-	348,743
Issuance of warrants for sales inducement	-	-	-	-	-	-	30,910	-	-	30,910
Net loss year ended December 31, 2008	-	-	-	-	-	-	-	-	(2,224,894)	(2,224,894)
Balance, December 31, 2008	500,000	50	1,000	-	83,016,048	8,302	4,468,122	-	(5,359,227)	(882,753)
Issuance of restricted shares for services	-	-	-	-	7,422,900	742	892,943	-	-	893,685
Sale of common stock	-	-	-	-	8,247,597	824	1,006,427	-	-	1,007,251
Conversion of debt to common stock	-	-	-	-	4,000,000	400	19,600	-	-	20,000
Issuance of preferred stock A for notes receivables	15,000	1	-	-	-	0	21,195	(18,000)	-	3,196
Conversion of debt to preferred stock	25,000	3	-	-	-	0	29,997	-	-	30,000
Issuance of common stock pursuant to reverse merger	-	-	-	-	1,012,588	101	(101)	-	-	-
Net loss year ended December 31, 2009	-	-	-	-	-	-	-	-	(2,525,101)	(2,525,101)
Balance, December 31, 2009	540,000	$ 54	1,000	$ -	103,699,133	$ 10,369	$6,438,183	$ (18,000)	$(7,884,328)	$ (1,453,722)

The accompanying notes are an intergral part of these financial statements

Cyclone Power Technologies Inc.
(f/k/a Coastal Technologies, Inc.)
Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,525,101)	$ (2,224,894)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	49,649	25,532
Increase in provision for contract loss	-	5,036
Issuance of restricted common stock for services	893,685	757,584
Issuance of warrant for sales inducement	-	30,910
Write-off of abandoned patent	24,715	-
Forgiveness of debt income	10,387	-
Changes in operating assets and liabilities:		
Decrease in accounts receivable	37,245	43,755
(Increase) in inventory	(122,712)	(18,129)
(Increase) in other assets	(13,004)	(353)
Increase in deferred revenue	513,219	58,511
Increase in deferred license and deposits	62,745	0
Increase in accounts payable and accrued expenses	5,687	216,844
Increase in accounts payable and accrued expenses-related parties	304,008	343,931
Net cash used by operating activities	(759,477)	(761,273)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures incurred for patents, trademarks and copyrights	(125,035)	(76,109)
Expenditures for property and equipment	(35,318)	(29,651)
Net cash used by investing activities	(160,353)	(105,760)
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Decrease) increase in loans-net	(75,060)	29,272
Payment of capitalized leases	(6,962)	-
Proceeds from sale of common stock	1,007,251	716,792
Proceeds from sale of preferred stock	3,196	-
Increase in related party notes and loans payable	18,597	96,472
Net cash provided by financing activities	947,022	842,536
Net increase (decrease) in cash and cash equivalents	27,192	(24,497)
Cash and cash equivalents, beginning of year	1,366	25,863
Cash and cash equivalents, end of year	$ 28,558	$ 1,366
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Payment of interest in cash	$ 1,193	$ -
NON CASH INVESTING AND FINANCING ACTIVITIES:		
Conversion of debt to common and preferred stock	$ 50,000	$ 348,743
Issuance of preferred stock for notes receivable	$ 18,000	-
Equipment acquired via capital lease	$ 27,401	-
Issuance of common stock pursuant to reverse merger adjustment	$ 101	-

The accompanying notes are an integral part of the financial statements

NOTE 1 – ORGANIZATIONAL AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION AND OPERATIONS

Cyclone Power Technologies, Inc. (the "Company") is the successor entity to the business of Cyclone Technologies LLLP (the "LLLP"), a limited liability limited partnership formed in Florida in June 2004. The LLLP was the developer and patent holder of the Cyclone Engine Technology.

Prior to July 2, 2007, the predecessor to the Company was a California corporation named Coastal Technologies, Inc. (the "Pink Sheet Company") which was engaged in the business of medical software development, and was listed in the Pink Sheets Electronic Market Place. In June 2007, in connection with its reverse merger into the Pink Sheet Company, the Company re-domiciled to the state of Florida and changed its name to Cyclone Power Technologies, Inc.

The Company is primarily a research and development company whose main purpose is to develop, commercialize and market licenses for its Cyclone Engine Technology.

B. ACCOUNTING STANDARDS CODIFICATION

The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 105-10 in June 2009, to be effective September 15, 2009. This establishes the ASC codification as the single source of authoritative nongovernmental Generally Accepted Accounting Principles (GAAP). All existing accounting standards are superseded as described in *FASB Accounting Standards Codification* (SFAS) No. 168, aside from those issued by the SEC. All other accounting literature not included in the Codification is non-authoritative. Adoption of this Codification as of September 30, 2009, which is reflected in our disclosures and references to accounting standards, had no change to our financial position or results of operations.

C. SUBSEQUENT EVENTS

In May 2009, the FASB issued SFAS No. 165, (ASC 855) *Subsequent Events* (ACS 855) which offers assistance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ACS 855 does not result in material changes in the subsequent events that an entity reports. This guidance requires disclosure of the date through which events subsequent to the Balance Sheet date have been evaluated and whether that date represents the date the financial statements were issued or were available to be issued. ASC 855 is effective for interim and annual periods ending after June 15, 2009. We evaluated events occurring between the end of our fiscal year, December 31, 2009 and April 1, 2010 when the financial statements were available to be issued.

D. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

E. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand; cash in banks and any highly liquid investments with maturity of three months or less at the time of purchase. The Company maintains cash and cash equivalent balances at several financial institutions, which are insured by the Federal Deposit Insurance Corporation up to $250,000.

F. COMPUTATION OF LOSS PER SHARE

Net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is not presented as the conversion of the preferred stock and exercise of outstanding stock options and warrants would have an anti-dilutive effect, which as of December 31, 2009, amounted to approximately 84.1 million shares.

G. INCOME TAXES

Income taxes are accounted for under the asset and liability method as stipulated by Accounting Standards Codification ("ASC") 740 formerly Statement of Financial Accounting Standards ("SFAS") No. 109, "*Accounting for Income Taxes*". Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities or a change in tax rate is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced to estimated amounts to be realized by the use of a valuation allowance. A valuation allowance is applied is applied when in management's view it is more likely than not (50%) that such deferred tax will not be utilized.

Effective January 1, 2009, the Company adopted certain provisions under ASC Topic 740, Income Taxes, ("ASC 740"), which provide interpretative guidance for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Effective with the Company's adoption of these provisions, interest related to the unrecognized tax benefits is recognized in the financial statements as a component of income taxes. The Adoption of ASC 740 did not have an impact on the Company's financial position and results of operations.

In the unlikely event that an uncertain tax position exists in which the Company could incur income taxes, the Company would evaluate whether there is a probability that the uncertain tax position taken would be sustained upon examination by the taxing authorities. Reserves for uncertain tax positions would be recorded if the Company determined it is probable that a position would not be sustained upon examination or if payment would have to be made to a taxing authority and the amount is reasonably estimate. As of December 31, 2009, the Company does not believe it has any uncertain tax positions that would result in the Company having a liability to the taxing authorities. The Company's tax returns are subject to examination by the federal and state tax authorities for the years ended 2006 through 2009.

H. REVENUE RECOGNITION

The Company's revenue recognition policies are in compliance with Staff Accounting Bulletin ("SAB") 104, included in the Codification as ASC 605, *Revenue Recognition*. Sales revenue is recognized at the date of shipment of prototypes, engine designs or other deliverables to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as deferred revenue. The Company does not allow its customers to return prototype products. It is the Company's intention, when it has royalty revenue from its contracts, to book royalty revenue in the quarter received. The Company does not have any royalty revenue to date.

I. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820 Fair Value "Measurements and Disclosures" requires disclosures of information about the fair value of certain financial instruments for which it is practicable to estimate the value. For purpose of this disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The carrying amounts reported in the balance sheet for cash, accounts receivable, inventory, accounts payable and accrued expenses, and loans payable approximate their fair market value based on the short-term maturity of these instruments.

J. RESEARCH AND DEVELOPMENT

Research and development activities for product development are expensed as incurred. Costs for the years ended December 31, 2009 and 2008 were $1,115,795 and $866,380, respectively.

K. STOCK BASED COMPENSATION

The Company applies the fair valve method of ASC 718, Share Based Payment, formerly Statement of Financial Accounting Standards ("SFAS") No. 123R *"Accounting for Stock Based Compensation"*, in accounting for its stock based compensation. This standard states that compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. As the Company does not have sufficient, reliable and readily determinable values relating to its common stock, the Company has used the stock value pursuant to its most recent sale of restricted stock sold to unaffiliated third-parties in the U.S. for purposes of valuing stock based compensation.

L. COMMON STOCK PURCHASE WARRANTS

The Company accounts for common stock purchase warrants at fair value in accordance with ASC 815-40 *Derivatives and Hedging*, formerly Emerging Issues Task Force Issue ("EITF") No. 00-19, *"Accounting for Derivative Financial Instruments Indexed to and Practically Settled in a Company's Own Stock"*. The Black-Scholes option pricing valuation method is used to determine fair value of these warrants consistent with ASC 718, *Share Based Payment,* formerly Statement of Financial Accounting Standards ("SFAS") No. 123 R *"Accounting for Stock Based Compensation."* Use of this method requires that the Company make assumptions regarding stock volatility, dividend yields, expected term of the warrants and risk-free interest rates.

The Company accounts for transactions in which services are received in exchange for equity instruments based on the fair value of such services received from non-employees, in accordance with ASC 505-50 *Equity Based payments to Non-employees*, formerly EITF No. 96-18, *Accounting for Equity Instruments that are Issued to other than Employees for Acquiring, or in Conjunction with Selling Goods or Services.*

M. PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation is computed on the straight-line method, based on the estimated useful lives of the assets of generally three or seven years. Expenditures for maintenance and repairs are charged to operations as incurred.

N. IMPAIRMENT OF LONG LIVED ASSETS

The Company continually evaluates the carrying value of intangible assets and other long lived assets to determine whether there are any impairment losses. If indicators of impairment are present and future cash flows are not expected to be sufficient to recover the assets' carrying amount, an impairment loss would be charged to expense in the period identified.

O. CURRENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standard Board (FASB) in October 2009 issued Accounting Standards Update (ASU) 2009-13 Revenue Recognition (Topic 605). This update provides guidance for revenue recognition consideration in multiple-deliverable contractual arrangements. The update requires that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. This update will be effective after June 15, 2010, and early adoption is permitted. The Company has implemented this update effective for the years beginning January 1, 2010. The disclosure requirements for this update are:

a. Multiple deliverable arrangements: the Company has contracts that provide for a working prototype or plans/schematics of the prototype engine (initial deliverable) and will record royalty fees after the customer constructs and puts the engine into operation or manufacturing, depending on the terms of the agreement.
b. The initial deliverables are usually within a year of signing of the contract and upon the complete customer payment of the initial license/development fees.
c. Revenue is based on the initial license/development fees charged for the deliverable, and then royalty income is recognized thereafter, through the life of the contract.

The implementation of this topic did not have any material effect on the financial statements and did not change any pattern and timing of revenue recognition.

In January 2010 FASB issued ASU "Equity" (Topic 505), accounting for distributions to shareholders with components of stock and cash. This amendment affects entities that declare dividends to shareholders that may be paid in cash or shares at the election of the shareholders with a potential limitation in the total amount of cash that all shareholders can elect to receive in the aggregate. The Company is evaluating the effect of this update.

NOTE 2 - GOING CONCERN

As shown in the accompanying financial statements, the Company incurred substantial net losses for the years ended December 31, 2009 and 2008 of $2,525,101, and $2,224,894, respectively. Cumulative losses since inception are $7,884,328. The Company has a working capital deficit at December 31, 2009 of $1,886,841. There is no guarantee whether the Company will be able to generate enough revenue and/or raise capital to support its operations. This raises substantial doubt about the Company's ability to continue as a going concern. Management states that they are confident that they can improve operations and raise the appropriate funds to grow their underlying business. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. The Company is currently raising working capital to fund its operations via private placements of common stock and advances from and deferred payments to related parties.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts due pursuant to licenses and development agreements with licensees and other clients of the Company, and research and development prototype charges.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2009 and 2008 consists of the following:

	2009	2008
Display Equipment for Trade Shows	$9,648	$9,648
Leasehold Improvements	39,953	-
Equipment and Computers	58,643	38,232
Total	108,244	47,880
Less: Accumulated Depreciation and Amortization	30,114	11,624
Net Property and Equipment	$78,130	$36,256

Depreciation and amortization expense for the years ended December 31, 2009 and 2008 was $18,490 and $8,171, respectively.

NOTE 5 – PATENTS AND TRADEMARKS AND COPYRIGHTS

The Cyclone Engine is currently protected under U.S. Patent # 7,080,512, its steam generator component is protected under U.S. Patent # 7,407,382, and the Company received in February 2010 notification of U.S. patent allowance for the valve/timing mechanisms for the engine. Additionally, the Company has filed patent applications in the U.S. on seven other major components of the engine, as well as the Waste Heat Engine. The Company also has received patents in seven countries plus the European Economic Union, which covers approximately 40 countries (which would require the Company perfecting the EEU patent in some or all of these countries), and patents pending in five more countries for the Cyclone Engine; and has patent applications pending in all these foreign jurisdictions for two of its major engine components. The Company plans to continue to pursue patent protection in the U.S. and internationally for its intellectual property.

The Company has filed trademark applications in the U.S. for Cyclone Power Technologies, Cyclone Power, WHE, WHE Generation, and Generation WHE.

Patents, trademarks and copyrights consist of legal fees paid to file and perfect these claims. For the year ended December 31, 2009, $116,297 was capitalized. Patents, trademarks and copyrights are amortized over the life of the intellectual property which is 15 years. Amortization for the years ended December 31, 2009 and 2008 was $31,159 and $17,361, respectively. The Company wrote off $24,715 for an abandoned patent in 2009.

NOTE 6 – NOTES AND OTHER LOANS PAYABLE

A summary of non related party notes and other loans payable as of December 31, 2009 and 2008 is as follows:

	2009	2008
6% uncollateralized convertible note payable on demand for original principle amount of $62,275(A)	$ 15,950	$ 45,662
6% uncollateralized $5,000 demand note, balance includes capitalized interest	5,000	5,348
6% uncollateralized demand note	-	25,000
Total current non related party notes and loans payable	$ 20,950	$ 76,010

A summary of related party notes and other loans payable as of December 31, 2009 and 2008 is as follows:

	2009	2008
6% demand loans to company owned by shareholder, collateralized by Company's patent application for its waste heat engine, balance includes unpaid interest at December 31, 2009 and 2008 of $5,524 and $724, respectively.	$96,282	$60,000
6% demand loans per Operations Agreement with Schoell Marine Inc., a company owned by Cyclone's CEO and controlling shareholder, collateralized by Cyclone's patent for heat regenerative engine, balance includes unpaid interest at December 31, 2009 and 2008 of $32,460 and $32,843 respectively (B)	531,618	548,803
6% uncollateralized demand loan from shareholder	-	500
6% uncollateralized demand loan from Company's attorney	-	30,000
Total current related party notes	$ 627,900	$ 639,303

NOTE 6 – NOTES AND OTHER LOANS PAYABLE (Continued)

(A) This convertible note originally payable on demand for $62,275, with a 6% annual interest rate, was transferred to the Company on July 2, 2007 as part of the acquisition of the assets and liabilities of the LLLP. On July 17, 2007, $18,000 of the note was converted into 6,000,000 restricted common shares of the Company. On October 17, 2008, $3,000 was converted into 1,000,000 restricted common shares, and in 2009, $20,000 was converted into 4,000,000 shares of restricted stock. In April 2009, the Company renegotiated the terms of the convertibility of this Note with its holder. Under these new terms, the principal balance of the note was reduced to $40,000, the interest rate was reduced to zero, and the holder agreed not to convert more than 2 million shares currently and then 2 million shares in any 12 month period, starting on July 1, 2009 and ending July 1, 2011. The balance on the note as of December 31, 2009 was $15,950 after recognizing $10,387 of gain on forgiveness on debt and all accrued unpaid interest.

(B) This note arose from services and salaries incurred by Schoell Marine on behalf of the Company. Schoell Marine also owns the building that is leased to the Company. The Schoell Marine note bears an interest rate of 6% and repayments occur as cash flow of the Company permit. The note is secured by a UCC-1 filing on the Company's patents and patent applications. During the year ending December 31, 2009, $46,000 was paid on the note balance.

NOTE 7 – RELATED PARTY TRANSACTIONS

A. LEASE ON WAREHOUSE

The Company leases a 6,000 square foot warehouse and office facility located at 601 NE 26th Court in Pompano Beach, Florida. The lease, which is part of the Company's Operations Agreement with Schoell Marine, an entity owned by the CEO, provides for the Company to pay rent equal to the monthly mortgage payment on the building plus property taxes, rent, utilities and sales tax due on rent. Occupancy costs for the years ended December 31, 2009 and 2008 were $76,320 and $72,253, respectively. The Operations Agreement runs year-to-year, however, the lease portion of this agreement is month-to-month, but can only be cancelled on 180 days notice by Schoell Marine.

B. DEFERRED COMPENSATION

Included in related party payables is $664,173 of accrued and deferred officers' salaries compensation which can be paid if funds are available. These are non interest bearing and due on demand.

NOTE 8 – PREFERRED STOCK

Series A Convertible Preferred Stock are currently convertible into a number of common shares that, when combined with the 33 million common shares that the Series A holders held as of July 2, 2007 will equal sixty percent (60%) of the then total issued and outstanding common shares. The Series A holders are the original equity holders of LLLP. The conversion of the Series A shares will have the effect of diluting all other common stock shareholders. As of December 31, 2009, the Series A shares were convertible into approximately 73 million shares of common stock. The Series B Preferred Stock are majority voting shares and are held by senior management. Ownership of the Series B shares assures the holders thereof a 51% voting control over the common stock of the Company. The Series B shares are convertible on a one-for-one basis with the common stock in the instance the Company is merged or sold.

NOTE 9 – STOCK TRANSACTIONS

The Company relies on capital raised through loans, private placement memorandums and Regulation S transactions (stock sold to foreign investors) to fund operations; however, since the beginning of 2009, the Company has also begun to generate revenue from license and development fees earned in connection with certain license agreements.

During the years ended December 31, 2009 and 2008, respectively, the Company issued 7,422,900 and 7,915,197 shares of restricted common stock for services, of which $748,054 and $530,575 was charged to general and administrative services, and $145,631 and $227,009 was for Research and Development related services and activities.

During the years ended December 31, 2009 and 2008, respectively, the Company sold 8,247,597 and 9,994,824 shares of restricted common stock for $1,007,251 and $716,792. The Company also converted $20,000 of debt into 4,000,000 shares of common stock in 2009, and $348,743 of debt and liabilities into 3,457,591 shares of common stock in 2008. In 2009, the Company also issued 40,000 shares of Series A Convertible Preferred Stock for $3,196 of cash, $18,000 of notes receivable by the Company and conversion of $30,000 of notes payable to the Company.

The Company also issued 1,012,588 shares of restricted common stock in 2009 as an adjustment to common stock issued pursuant to the Acquisition Agreement with the Pink Sheet Company.

NOTE 10 – INCOME TAXES

A reconciliation of the differences between the effective income tax rate and the statutory federal tax rate for 2009 and 2008 are as follows:

	2009	2008
Tax benefit at U.S. statutory rate	34%	34%
State taxes, net of federal benefit	4	4
Change in valuation allowance	(38)	(38)
	0%	0%

CYCLONE POWER TECHNOLOGIES, INC.
(f/k/a Coastal Technologies, Inc.)
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2009 and 2008

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2009 and 2008 consisted of the following:

Deferred Tax Assets	**2009**	**2008**
Net Operating Loss Carryforward	$2,374,000	$1,414,000
Total Deferred Tax Assets	2,374,000	1,414,000
Deferred Tax Liabilities – Accrued Salaries	(112,700)	(87,400)
Net Deferred Tax Assets	2,261,300	1,326,600
Valuation Allowance	(2,261,300)	(1,326,600)
Total Net Deferred Tax Assets	$ -	$ -

As of December 31, 2009, the Company had a net operating loss carry forward for income tax reporting purposes of approximately $6.2 million that may be offset against future taxable income through 2028. Current tax laws limit the amount of loss available to be offset against future taxable income when a substantial change in ownership occurs. Therefore, the amount available to offset future taxable income may be limited. Prior to the reverse merger at July 2, 2007, the company was a limited liability limited partnership, and all income tax consequences were reflected on the individual members' returns. No tax asset has been reported in the financial statements, because the Company believes there is a 50% or greater chance the carryforwards will expire unused. Accordingly, the potential tax benefits of the loss carry forwards are offset by a valuation allowance of the same amount.

NOTE 11 – LEGAL MATTERS

The Company issued 1,012,588 shares of restricted common stock in 2009 as an adjustment to common stock issued pursuant the reverse merger with the Pink Sheet Company.

The Company is not involved in any litigation at this time, and management knows of no legal proceedings against the Company, threatened, pending or otherwise.

NOTE 12 – STOCK OPTIONS AND WARRANTS

A. COMMON STOCK OPTIONS

In 2007, the Company issued 1,000,000 common stock purchase options to its officers as part of their employment contract. A summary of the common stock options for the years ended December 31, 2009 and 2008 follows:

Common Stock Options	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Balance, December 31, 2007	1,000,000	.325	9.5
Options issued	-	-	-
Options exercised	-	-	-
Options cancelled	-	-	-
Balance, December 31, 2008	1,000,000	.325	8.5
Options issued	-	-	-
Options exercised	-	-	-
Options cancelled	-	-	-
Balance, December 31, 2009	1,000,000	.325	7.5

B. COMMON STOCK WARRANTS

As part of the license and royalty agreement with Renovalia Energy S.A. ("Renovalia") of Madrid, Spain, for solar thermal engines, the Company issued to Renovalia stock purchase warrants for 8,000,000 shares of restricted common stock, exercisable at a strike price of $.25 per share. These warrants vest upon the completion, delivery and testing of the first two Cyclone Solar I prototypes by Renovalia (projected for the first half of 2010) and terminate 12 months thereafter. The warrants are valued at approximately $157,702 (by the Black Scholes valuation method) and are to be amortized in conjunction with revenue recognition from this contract, anticipated to commence in 2010.

As part of the Company's license agreement with Phoenix Power Group ("Phoenix"), the Company issued to Phoenix common stock purchase warrants at a price of $.19 per share, equal to two (2%) percent of the total issued and outstanding common stock of the Company at the time of exercise. The warrants vest upon the delivery of the first two prototype Cyclone Mark V Engines to Phoenix and payment by Phoenix of the full $400,000 license, and terminates 24 months thereafter. Delivery of the prototypes is estimated in the second half of 2010. The warrants are valued at approximately $100,000 (by the Black Scholes valuation method) and are to be amortized in conjunction with revenue recognition from this contract, anticipated to commence in 2010.

B. COMMON STOCK WARRANTS- (continued)

A summary of outstanding warrants for the years ended December 31, 2009 and 2008 follows:

	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Common Stock Warrants			
Balance, December 31, 2007	-	-	-
Warrants issued	250,000	$.08	1
Warrants exercised	-	-	-
Warrants cancelled	-	-	-
Balance, December 31, 2008	250,000	$.08	0.9
Warrants issued	10,073,983	$.238	*
Warrants exercised	250,000	$.08	-
Warrants cancelled	-	-	-
Balance, December 31, 2009	10,073,983	$.238	*

*Vesting conditioned upon future events

The fair value of stock purchase warrants granted using the Black-Scholes option pricing model was calculated using the following assumptions:

	Years Ended December 31, 2009	2008
Risk Free Interest Rate	2.0%	2.0%
Expected Volatility	72%	231%
Expected term of warrant in years	1 – 2	1
Expected dividend yield	0%	0%
Average value per option	.02 - .05	.12

Expected volatility is based on historical volatility of the Company and other comparable companies. Short Term U.S. Treasury rates were utilized. The expected term of the options and warrants was calculated using the alternative simplified method newly codified as ASC 718, formerly Staff Accounting Bulletin ("SAB") 107, which defined the expected life as the average of the contractual term of the options and the weighted average vesting period for all options trenches. Since trading volumes and number of unrestricted shares are small compared to total outstanding shares, the value of the warrants was decreased for lack of marketability.

NOTE 13 – CAPITALIZED LEASE OBLIGATIONS

In June 2009, the Company acquired $27,401 of property and equipment via capitalized lease obligations at an average interest rate of 18.4%. Lease principle payments made in 2009 were $6,962 and the balance of leases payable at December 31, 2009 was $18,083. Subsequent lease payments are:

2010	$ 10,798
2011	4,748
2012	904
2013	1,095
2014	538
	$ 18,083

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Company has employment agreements with Harry Schoell, CEO, at $150,000 per year, and Frankie Fruge, COO, at $120,000 per year (the "Executives"), that provide for a term of three (3) years from their Effective Date (July 2, 2007), with automatically renewing successive one year periods starting on the end of the second anniversary of the Effective Date. If either Executive is terminated "without cause" or pursuant to a "change in control" of the Company, as both defined in the respective agreements, the Executive shall be entitled to (i) any unpaid Base Salary accrued through the effective date of termination, (ii) the Executive's Base Salary at the rate prevailing at such termination through 12 months from the date of termination or the end of his Term then in effect, whichever is longer, and (iii) any Performance Bonus that would otherwise be payable to the Executive were he not terminated, during the 12 months following his or her termination.

NOTE 15 – SUBSEQUENT EVENTS

In March 2010, the Company commenced a private placement of up to 200,000 shares of its Series A Convertible Preferred Stock at a price of $5.00 per share. Proceeds from this offering will be used for operations and working capital purposes. In contemplation of this offering, the Company also filed an amendment to its Articles of Incorporation to increase its authorized Series A Preferred Stock to 750,000 shares.

In March 2010, the Company delivered its biomass-to-power engine system to Robotic Technologies, Inc., pursuant to its Statement of Work, which will result in the recognition of $75,000 in revenue previously deferred.