



ANNUAL REPORT

YEAR ENDED DECEMBER 31, 2010

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EXECUTIVE SUMMARY

Cyclone Power Technologies is an innovative engineering firm focused on developing environmentally-friendly power sources for the future. Specifically, Cyclone has developed and patented the **Cyclone Engine**, an award-winning engine that is powerful, compact and versatile enough for applications ranging from electric power generation from solar thermal collectors, industrial waste heat and biomass, to all forms of transportation.

The Cyclone 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.

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). This creates greater “well to wheel” efficiencies than gas or diesel powered I/C engines.

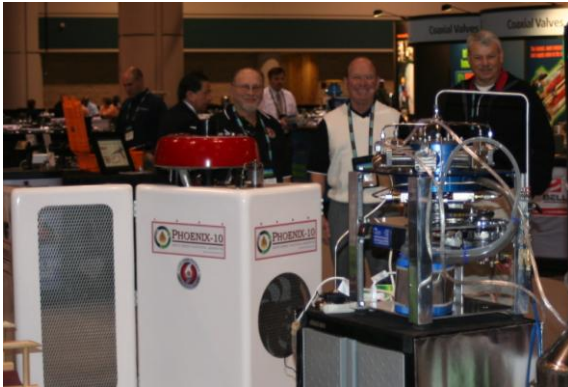
Powerful and Compact: Unlike batteries or fuel cells, the Cyclone is powerful enough for heavy transportation; and unlike steam engines of the past, the Cyclone is compact with an extremely high power to weight ratio, all contained in a closed-loop system so it never needs its working fluid (water) replenished.

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 I/C engines.

Currently three Cyclone Engines are in different stages of development, with the first engine slated for commencement of production in late 2011 or early 2012. Cyclone has several important contracts with customers that include Raytheon Company, Renovalia Energy, Phoenix Power Group, and leading U.S. auto parts manufacturer TopLine Automotive Engineering.

Cyclone received its first patent in the U.S. for the Cyclone Engine in 2006, and since then has received eight other U.S. patents and nine international patents. The Cyclone has also received numerous awards, including two Tech Awards from the **Society of Automotive Engineers** and Popular Science's **Invention of the Year** Award in 2008.

CYCLONE YEAR IN PHOTOS



Harry Schoell, CEO, with Clean Burn's Sales Mgr. and Cyclone shareholder at PowerGen 2010 Conference. Cyclone unveiled the Phoenix 10 and WHE-10.



Harry, Jim Landon (Director) and Chris Nelson (President) address shareholders at 2010 Annual Meeting. Cyclone filed audited financials and prepared for filing with the SEC in 2010.



Harry gives the thumbs-up as the Phoenix 10 starts to produce power from waste oil combustion. Phoenix ordered two prototypes in 2010.



Cyclone technicians preparing the Mark V 100hp engine for test runs – Cyclone received eight patents for this engine in 2010.



Harry and Team Steam USA captain, Chuk Williams, display what is soon to be the "Fastest Steam Car on Earth."



Discovery Channel's "How it's Made" filming at Cyclone for an up-coming show.

PART A **General Company Information**

Item I **The exact name of the issuer and its predecessor:**

Cyclone Power Technologies, Inc.
Formerly: Coastal Technologies, Inc. until June 2007

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 at the issuer:
Christopher Nelson
President & General Counsel
Tel: 954-943-8721
chris@cyclonepower.com

Item III **The state and date of the issuer’s incorporation or organization:** Cyclone Technologies LLLP (the “LLLP”) was originally formed in Florida in 2004. In July 2007, the LLLP merged into Cyclone Power Technologies, Inc. (“Cyclone” or the “Company”), which was re-incorporated, re-named and re-domiciled in Florida in June 2007. Prior to this merger, the Company 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; 300,000,000 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

Common: The Company's Common Stock has no special dividend, voting or preemptive rights. Holders of Common Stock are entitled to one vote per share. On April 5, 2010, the Company decreased the number of authorized common shares from 1 billion to 300,000,000. This was done by consent of the Company's shareholders, per Florida law. No rights of any outstanding common shares were affected by this action.

Preferred: 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 LLLP, the Company's predecessor in interest, in proportion to their LLLP equity holdings as of July 2, 2007, the date of the reverse merger (see Item VIII below). Series A Preferred shares are, as a group, 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. As of December 31, 2010, the Series A Preferred shares were convertible into approximately 88.3 million shares of common stock. Of these converted common shares, approximately 51.3 million are held by affiliates, employees and control persons of the Company, and approximately 24 million more are subject to a two-year hold back from the date of issuance. In both cases, the resale of these common shares is restricted. Conversion will occur upon the approval of holders of a majority of the Series A Preferred shares.

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 per Florida law, and were completed in order to offer additional Series A Preferred shares to accredited investors, providing the Company with \$1 million in funding. Because of the fixed conversion formula for these shares, the increase of authorized and outstanding Series A Preferred stock pursuant to this offering did not increase the dilution to common stock shareholders (as calculated above); but rather, diluted the other Series A Preferred shareholders as a group. Additionally, as noted above, all shares of Series A Preferred stock issued in this offering bear a two-year holding period from the date of issuance, which would mean that purchasers of these shares would not be able to sell the common stock underlying their preferred stock until sometime starting in mid 2012.

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 as per the conversion ratio. The Series A Preferred shares have no additional rights.

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 two holders are collectively 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

	December 31, 2010	December 31, 2009
# of Shares Authorized	300,000,000 *	1,000,000,000
# of Shares Outstanding	114,020,135	103,699,113
Freely Tradable	42,337,447	37,352,203
# of Beneficial Shareholders	2,738	2,582
Total # of Shareholders of Record	3,100	2,950

* The number of authorized common shares was decreased from 1,000,000,000 to 300,000,000 on April 5, 2010.

SERIES A CONVERTIBLE PREFERRED STOCK

	December 31, 2010	December 31, 2009
# of Shares Authorized	750,000	550,000
# of Shares Outstanding	705,453	540,000
Freely Tradable	0	0
# of Beneficial Shareholders	60	25
Total # of Shareholders of Record	60	25

SERIES B PREFERRED STOCK

	December 31, 2010	December 31, 2009
# 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

Common Stock Warrants. The Company has issued the following common stock purchase warrants as of December 31, 2010:

Shares Exercisable	Exercise Price	Vesting Date	Termination Date
2,277,772 (1)	\$.19	July 1, 2011 (2)	July 1, 2013 (2)
775,000	\$.15	Vested	Aug. 23, 2012

- (1) Estimated number of shares based on 2% of the total current outstanding shares of common stock as of 12/31/10.
(2) Estimated date of Vesting and Termination based the Company’s Agreement with Phoenix Power Systems

Common Stock Purchase Options. The Company has issued the following stock options to management, employees and contractors as of December 31, 2010:

Shares Exercisable	Avg. Exercise Price	Vesting Date	Termination
1,000,000	\$.325	Vested	July 1, 2018
450,000	\$.15	Vested	April 1, 2021
150,000	\$.097	Vested	June 30, 2020
170,000	\$.098	Sept. 2, 2011	Sept. 2, 2016
150,000	\$.092	Sept. 30, 2011	Sept. 30, 2021
150,000	\$.119	Dec. 31, 2011	Dec. 31, 2021
970,000	\$.12	Dec. 31, 2011	Dec. 31, 2016

PART C Business Information

Item VII The name and address of the transfer agent

Transfer Online
 317 SW Alder Street
 2nd Floor
 Portland, OR 97204

Transfer Online’s regulatory authority is the Securities Exchange Commission.

Item VIII The nature of the issuer’s business

A. Business Development.

- 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 (the LLLP).
- 2. The year that the Company/issuer was organized:** The Company was originally organized in 2004 as the LLLP.
- 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 its predecessors 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, Cyclone Power Technologies, Inc. (which had recently re-incorporated and re-named itself from Coastal Technologies, Inc.) completed an acquisition (the “Acquisition”) of all of the assets and liabilities of the LLLP. Prior to the Acquisition, the LLLP held the

assets, patents, 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 Company's predecessor in interest 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, 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 Company 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).
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 Technology'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 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.

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 an engineering company engaged in clean energy research and development. 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. The Company's counsel performed a thorough investigation of the issuer's history from inception in 1971 until the present time. This included interviewing and receiving written statements from CEOs and/or Directors of the issuer who have continuously been in control positions of the issuer since 1971. Based on these statements and other research, including reviewing stock transfer books, financial statements, contracts, patents, business plans and other materials in existence since 1971, the Company made the good faith determination that the issuer is not nor had been a "shell company" since its existence.

4. **The names of any parent, subsidiary, or affiliate of the issuer:** On April 29, 2010, the Company formed Cyclone-WHE, LLC, then a 100% owned subsidiary and operating division of the Company, and now an 82.5% owned subsidiary of the Company. The business of Cyclone-WHE is to manufacture and market the Company's waste heat engine products, pursuant to an exclusive worldwide license from Cyclone. Currently, this division has no revenue or separate operations, and any expenses of this division have been consolidated 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 its 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, a material portion 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 2010 and 2009 were \$830,611 and \$1,115,795, 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 over the last two years approximately 50% of its R&D operations have been borne by its customers. Management expects that this percentage will increase in the future as it signs additional development contracts and as more of the Company's resources are directed away from pure R&D and into production.

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 its 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 stays 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:** As of December 31, 2010, the Company had 16 employees, including two independent contractors.

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**, 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 local, renewable bio-fuels and “free” fuel such as solar and waste heat;
- Extremely “green” engine, producing far less pollution than I/C engines;
- High efficiencies arise from high operating temperatures and innovative energy recycling designs;
- Powerful and compact, which makes the Cyclone perfect for cars, trucks and busses;
- Inexpensive to build and maintain because many of the costly subsystems needed in I/C engines are avoided.

Distribution methods of the product or services: The Company is an R&D engineering firm. Our business objective is to develop engine designs and prototypes that we can: (1) license to manufacturers, or (2) contract with manufacturers for direct sale of finished products to customers. Our revenue has and will come from:

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

With respect to certain Waste Heat Recovery applications, we also expect to realize revenue through the development, design and installation of total system packages, which would be sold to customers or provided to customers through a Power Purchase Agreement (PPA). We have established a specialized subsidiary company – *Cyclone-WHE LLC* – to pursue these opportunities, of which we own 82.5% of its equity.

We have limited revenue – approximately \$260,000 in income in 2010, and \$710,000 in deferred revenue as of the end of the year, from several license and development agreements. These agreements include:

Raytheon Company: We have successfully completed the testing phase of our Independent Research & Development contract with this \$23 billion defense contractor. We are currently in discussions regarding the next phase of a broader Teaming Agreement, under which we expect to develop additional prototype engines for Raytheon’s military and civilian 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 has received \$350,000 in development fees, and then on-going royalties on each engine produced. Cyclone is currently completing the prototype “Solar 1” engine which may ultimately be manufactured by the customer.

Phoenix Power Group: Our license with Phoenix Power provides them with the exclusive rights to utilize Cyclone Engines for power generators combusting waste oil fuels, such as used automotive motor oil. Under its license Phoenix has paid us \$500,000 in license and development fees, and then will pay us on-going royalties from their system sales. Phoenix is expected to pay minimum royalties over the life of the agreement exceeding \$4 million. Cyclone is currently completing the first two 7.5 kW Phoenix-10 prototype systems for this customer, which are based around our WHE-25 engine, and expects orders for additional units to follow.

Robotic Technology: We completed a \$100,000 contract for RTI in 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 (Department of Defense) 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 our partner, Raytheon). This license has a 20 year term. Advent has paid over \$100,000 in license fees as of December 31, 2010, and is obligated to pay additional license fees and on-going royalties from the sale of engines produced using the Cyclone Technology. Advent is currently bidding on several military contracts for use of Cyclone engines in distributed and mobile power production applications.

Great Wall Alternative Power Systems: GWAPS is licensed to develop in China a production prototype of Cyclone’s biomass-to-power generator system (similar to the one Cyclone developed for RTI). Pending completion of production prototyping for Cyclone’s Mark V engine in the United States, GWAPS will also have the rights to develop the larger 100hp Mark V engine for electric power production. GWAPS has paid Cyclone \$125,000 in development fees, and has agreed to pay 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. 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. GWAPS expects to complete the first prototype engines in China in the second quarter of 2011.

Looking forward, the markets that we believe present the most viable and lucrative business opportunities for the Company include:

Transportation	Power Generation	Equipment	Specialty
Automobiles Trucks & Busses	10kW – 1MW Distributed Power	Off-Road Industrial	Military & Defense
Ships & Locomotives	Waste Energy Recovery	Mining & Lifting	Underwater Oil Exploration
Motorized Bikes & ATVs	Solar Thermal Dishes & Towers	Lawn & Garden	Oil Field & Landfill Flares

B. Status of any publicly announced new product or service. The Cyclone Engines are 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	<i>Alpha</i> Test Engine	Completed
WHE Waste Heat Engine	16 HP	Waste heat recovery, waste fuels, biomass-to-power	Production Model	Q3 2011
Solar I	5 HP	Solar thermal, small scale power, military	Production Model	Q4 2011
Mark V	100 HP	Transportation, commercial power, military	Pre-production Beta Engine	Q4 2011
Mark VI	330 HP	Heavy transport, power plant, heavy equipment	Pre-production Beta Engine	Q3 2012

Manufacturing: In March 2011, the Company entered into a Letter of Understanding with TopLine Energy Systems, LLC, an affiliated company of global manufacturing leader TopLine Automotive Engineering, Inc., to build Cyclone engines. Under the terms of this preliminary agreement, TopLine Energy will provide assistance with engineering and planning of Cyclone’s WHE-25 model engines, and manufacture pre-production prototypes of these units starting immediately. Given the acceptable completion and review of this first stage, TopLine Energy will position itself as the “Preferred Manufacturer” for Cyclone’s operating subsidiary Cyclone-WHE, for mass production of these engines.

TopLine Automotive, a 30+ year-old company, is currently one of the largest manufacturers of automotive after-market parts in the United States, supplying over 50% of the market. Headquartered in Chicago, IL, TopLine Automotive has operations throughout the world, including a new, state-of-the-art 300,000 sq. ft. facility in Brooksville, FL. This Florida plant, only a few hours from Cyclone, is dedicated to the development and production of distributed and alternative energy products like the Cyclone engine.

C. Competitive business conditions: The Company believes that its Technology, which is a heat-regenerative, Rankine cycle external combustion engine, has little direct competition. However, depending on the industry in which these engines are applied, indirect competitors utilizing different technologies do exist.

Currently, there are several companies 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 efficient, 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, several Stirling engine

companies such as Infinia Corp. seem 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 sustained 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 truly 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, Toyota and GM have made the most advances in bringing to market hybrid and plug-in electric vehicles that will meet current Environmental Protection Agency ("EPA") requirements. However, the electric vehicles that these companies 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 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 Cyclone 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 electric 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. With respect to the primary industries in which Cyclone plans to compete, it believes its technology has certain material advantages over other technologies and methods of operation. The following table summarizes those areas and advantages held by Cyclone.

	Competition	Companies	Cyclone Advantages
Distributed Power Generation	-Mini-turbines -Fuel cells	-Capstone Turbine -Bloom Energy	-More efficient and cheaper than mini turbines -Cheaper and further ahead than fuel cells
Waste Heat Recovery	-Organic Rankine Cycle -Thermal-electrics	-Calnetix (now GE) - Caterpillar - Voith Turbo	-Broader heat capabilities -Cheaper and smaller -Thermal-elec not proven outside laboratory
Solar Thermal	-Stirling engines	-Infinia Solar -Stirling Energy Systems	-Smaller and lighter -More efficient -Self starting
Automotive	-Clean diesel -Hybrid/plug-in electric	-Major auto manufacturers -Tesla	-Multi-fuel capable -Cleaner than diesel -Not reliant on utility grid

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 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 respect 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 addition 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 (NOx).
- 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 'locally-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.

D. 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.

E. 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 developing 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.). However, as of the date of this filing, the Company has taken on additional military and defense department projects for Raytheon Company, which may prove to constitute a considerable portion of the Company's revenue for 2011 and 2012. A loss of this relationship moving forward could be detrimental to the Company and its results of operations.

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

The Company currently has the following patents issued and pending:

US Patents

Heat Regenerative Engine (US Patent No. 7,080,512 B2)
Heat Regenerative Engine (Continuation)(US Patent No. 7,856,822 B2)
Steam Generator in a Heat Regenerative Engine (US Patent No. 7,407,382)
Engine Reversing and Timing Control Mechanism (US Patent No. 7,784,280 B2)
Centrifugal Condenser (US Patent No. 7,798,204 B2)
Valve Controlled Throttle Mechanism (US Patent No. 7,730,873 B2)
Pre-Heater Coil in a Heat Regenerative Engine (US Patent No 7,856,823 B2)
Engine Shrouding with Air to Air Exchanger (Ser. No. 11/879,586)
Spider Bearing (Ser. No. 11/879,589)
Waste Heat Engine (pending)

International Patents

European Union	Australia
South Africa	Canada
Russia	China
Korea	Indonesia
Mexico	

Pending: Japan, India, 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 A** of this Report.

The Company is not party to any organized labor contracts.

G. 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.

Because of the Company's work with the military, it is registered 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 as of the date of this filing

Name	Age	Title
Harry Schoell	68	Chairman and Chief Executive Officer
Frankie Fruge	66	Director and Chief Operating Officer
James C. Landon	67	Director
Christopher M. Nelson	41	President and General Counsel
Bruce Schames	64	Chief Financial Officer

Harry Schoell, Chairman and Chief Executive Officer, is a life-long entrepreneur and technology visionary. He is a native Floridian, born in Miami, and a third generation inventor and engineer. Mr. Schoell has worked for years to realize his dream to create an environmentally-friendly engine, and has 18 patents issued to date on the Schoell Cycle heat regenerative external combustion engine, now called the Cyclone Engine.

Mr. Schoell is well versed in all facets of manufacturing procedure, including, appropriate foundry protocol, castings, machining, production design & manufacturing, and plastic and fiberglass laminates. He 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 exists today.

Mr. Schoell successfully built Schoell Marine and its reputation based on his original ideas, highly trained engineers, and prototype and production specialists – the same as he is doing now for Cyclone. Over these 40+ years, his inventiveness resulted in over 40 specialized patents and patent applications, including a Jet Drive System, a trimmable surface drive, a “Ground Effect Craft”, and a lightweight internal engine that he designed and built in 1990.

Mr. Schoell is known throughout the industry for his vision and is highly sought after for his knowledge and expertise. In 2010, Boating Magazine named him one of the most important “Game Changers” in the marine industry. 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). 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.

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.

James Landon, a CPA and CFE, 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, the Florida Institute of Certified Public Accountants, the Association of Certified Fraud Examiners, and the South Florida Chapter of the Association of Certified Fraud Examiners.

Mr. Landon is also a director of US Lacrosse, Inc., and chairs their Strategic Planning Committee, a director of the South Florida Chapter of US Lacrosse, a director of the Florida Youth Lacrosse Foundation, a director of Children Hope and Horses Corporation, and the immediate past president of the South Florida Chapter 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.

Christopher Nelson serves as President and General Counsel of the Company, positions he has held since March 2011. Prior to that, he was Executive Vice President and General Counsel of the Company, and since July 2007, outside corporate counsel for Cyclone. Over the past three years, he has assisted and overseen all aspects of the Company's business and legal affairs, including: public securities filings and financing, licensing and development agreements, investors and public relations, and general corporate matters.

Mr. Nelson has practiced law in Florida for over 16 years, and since 2001, has served in a general corporate counsel role for many start-up, early stage and established businesses seeking financing, acquisitions and general growth management counseling. Such companies recently included Dental Practice Management, a \$4 million medical management company based in Ft. Lauderdale, Florida; UMT International, a \$5 million industrial machine manufacturing company, based in Dania Beach, Florida; and InfoLink, a \$6 million information services company in Miami, Florida. He has been a member of the Florida Bar since 1995.

Between 1997 and 2000, Mr. Nelson was an associate with Greenberg Traurig PA, and between 1995 and 1997 an associate with Akerman Senterfitt PA, both in Miami, Florida and both in their

corporate and securities practice divisions, representing NYSE and NASDAQ companies such as AutoNation, Republic Industries and Wackenhut. Mr. Nelson received his BA from Princeton University, and JD from University of Miami School of Law.

Bruce Schames serves as CFO for Cyclone. He has been a CPA since 1971, representing both public and private clients in his own practice since 2001. Prior to that, Mr. Schames served as CFO of East Coast Beverage Corp. (OTCBB: ECBV), Medcom USA (NASDAQ: EMED), Financial Reporting Manager for Dole Fresh Fruit Co., and in various accounting and reporting capacities of NYSE companies. Mr. Schames received his BBA from Baruch College of the City University of N.Y., and an MBA from the University of Southern California.

Employment Agreements

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 cash compensation under his agreement, but has converted some deferred salary to stock. The term of Mr. Schoell's agreement is three years with automatic one-year renewals.

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

Mr. Nelson has an arrangement for employment with the Company providing for a base salary of \$120,000 per year plus standard benefits. This arrangement is currently year-to-year.

Mr. Schames has an Employment Agreement with the Company providing for a base salary of \$72,000 per year plus 150,000 common stock options per quarter. This agreement is year-to-year, terminable on 60-days notice by either party.

Mr. Landon has no separate employment agreement with the Company; however, in 2010 he received 50,000 shares of stock per month as compensation for his services on the Board of Directors. Additionally, Mr. Landon's accounting firm, Landon & Associates, is retained as the Company's tax accountants.

Board of Directors

The Company's directors at this time are Harry Schoell, CEO, Frankie Fruge, COO, and James Landon. Non-employee members of the Board of Directors 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 an Audit Committee, for which there is currently one member, Mr. Landon. The Company does not have a Compensation Committee at this time, however, expects to create such committee 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. Currently, the Board of Advisors is comprised of:

James D. Crank, a retired engineer with Lockheed Martin 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 compensates its Board of Advisors members from time to time in shares of the Company's restricted common stock for their services rendered on behalf of Cyclone.

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: No material relationships to report.

D. Disclosure of Related Party Transactions: The Company has an Operations Agreement with Schoell Marine, a company owned 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, 2010, the Company owed to Schoell Marine \$588,928, which is booked as note payables and account payables. 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.

As of December 31, 2010, the Company also had on its books \$970,614 of accrued and deferred officers' salaries compensation to Mr. Schoell and Ms. Fruge. This deferred salary can be paid to the officers if and when funds are available. These funds are accounted for as non-interest bearing notes, due on demand.

E. Disclosure of Conflict of Interest. In addition to the transactions described in Section D above, the Company acknowledges that a potential conflict of interest may exist in the future between itself and its 82.5% owned subsidiary, Cyclone-WHE LLC. Currently, an Operating Agreement and License Agreement exist between the two entities that define each party's rights and obligations. The License Agreement sets forth the specific terms of Cyclone-WHE's exclusive rights to use the Cyclone technology for waste heat recovery applications on a

worldwide basis. Additionally, a conflict may exist for Mr. Nelson, who is both President of Cyclone and Managing Director of Cyclone-WHE, and owns a 5% equity stake in Cyclone-WHE. It is the Company's objective to place new management in charge of the daily operations of Cyclone-WHE as soon as that company has separate funding. Also, the Company plans to establish procedures for mediation in case an issue arises between Cyclone and Cyclone-WHE. As of 2010, Cyclone-WHE had no formal operations and was still in the development stage.

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

Financial Statements for the period ended December 31, 2010 have been attached to the end of this Annual Report and are ordered as follows:

	<u>Page #</u>
1) Report of Independent Registered Public Accounting Firm	F-2
2) Consolidated Balance Sheets	F-3
3) Consolidated Statements of Operations	F-4
4) Consolidated Statements of Stockholders' Deficit	F-5
5) Consolidated Statements of Cash Flows	F-6
6) Notes to the Consolidated Financial Statements	F-7 – F-18

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

The following table sets forth information regarding the beneficial ownership of the Company's Common Stock, Series A Convertible Preferred Stock, and Series B Preferred Stock by each member of the Company's Executive Management and Board of Directors, and each Shareholder who is known by the Company to own beneficially five percent (5%) or more of the outstanding stock of such class as of December 31, 2010. On this date, 114,020,135 shares of common, 705,453 shares of series A Preferred, and 1,000 shares of Series B Preferred stock were issued and outstanding.

Name and Address	Common Shares Beneficially Owned		Series A Pref. Shares Beneficially Owned		Series B Pref. Shares Beneficially Owned	
		%		%		%
Harry Schoell , Chairman & CEO 601 NE 26 th Ct. Pompano Beach, FL 33064	16,991,744	14.90%	240,784	34.13%	797	80%
Frankie Fruge , COO & Director 601 NE 26 th Ct. Pompano Beach, FL 33064	5,118,690	4.48%	60,633	8.59%	203	20%

James Landon , Director 4401 N Federal Hwy Boca Raton, FL 33431	1,850,000	1.62%	1,000	1.41%	-	-
Christopher Nelson , President, General Counsel 601 NE 26 th Ct. Pompano Beach, FL 33064	1,878,000	1.64%	25,500	3.61%	-	-
Bruce Schames , CFO 601 NE 26 th Ct. Pompano Beach, FL 33064	85,001	*	-	-	-	-
Michael Hodgson , Chief Engineer 601 NE 26 th Ct. Pompano Beach, FL 33064	3,160,740	2.77%	30,390	4.30%	-	-
Shelby Wilson 461 Smullton Road Rebersburg, PA 16872	**	-	37,582	5.32%	-	-
TOTALS:	29,084,175	25.55%	395,886 (1)	56.12%	1,000 (2)	100%

* Constitutes less than 1% of the total class outstanding.

** Constitutes less than 5% of the total class outstanding.

(1) The 395,886 shares of Series A Preferred stock held by officers, directors and control persons is currently convertible into approximately 47,506,320 shares of common stock.

(2) The 1,000 shares of Series B Preferred stock provide their holders a majority vote on all matters brought before the common shareholders.

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. **Securities Counsel:**
Joel D. Mayersohn
Roetzel & Andress
350 East Las Olas Blvd., Suite 1150
Ft. Lauderdale, FL 33301
Tel: 954-462-4150
jmayersohn@ralaw.com
4. **Tax Accountants**
James Landon
Landon & Associates
4401 N Federal Hwy, Ste 202
Boca Raton, FL 33431
Tel: 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 CPA and CFE. He is a member of the American Institute of Certified Public Accountants, the Florida Institute of Certified Public Accountants, the Association of Certified Fraud Examiners, and the South Florida Chapter of the Association of Certified Fraud Examiners. Mr. Landon is also 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 year ended December 31, 2010. The firm also conducted the Company's 2008 and 2009 audits. 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

American Capital Ventures
Howard Gostfrand, President
2875 NE 191st St, Suite 904
Aventura, FL 33180
Tel: 305-918-7000
www.amcapventures.com

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 of the filing of this Annual Report, the Company had completed a \$1 million Series A Preferred Stock offering, and was preparing for another \$1 million common stock offering, which would be sufficient to support operations through the end of 2011. The Company was also preparing filings with the Securities and Exchange Commission to become a fully-reporting registrant under the Securities and Exchange Act of 1934, as amended. Management believes that this action will allow the Company to move its common stock to a more stable market exchange, and provide greater transparency to the Company's operations, both necessary steps towards attracting institutional investors.

In April 2011, the Company also received a purchase order for multiple Mark V engines from Raytheon Company, a contract worth \$400,000 to the Company. Management believes that this purchase order will constitute one of multiple contracts that the Company could receive from Raytheon over the next few years worth several million dollars in the aggregate.

As shown in the accompanying financial statements, the Company incurred substantial net losses for the years ended December 31, 2010 and 2009 of (\$2,171,409) and (\$2,525,101), respectively. Cumulative losses since inception are (\$10,050,612). The Company has a working capital deficit at December 31, 2010 of \$2,322,199. Despite the current private stock offerings and new contracts, there is no guarantee whether the Company will be able to support its operations on a long term basis. This raises doubt about the Company's ability to continue as a going concern. If additional 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 continue to improve operations and raise the appropriate funds to grow their underlying business. As explained above, 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 to support operations well into 2012.

Private Placements. In 2010 the Company sold 2,062,222 shares of restricted common stock and 141,000 shares of two-year restricted Series A Preferred stock in private placements under Regulation D and Regulation S of the Securities Act of 1933, as

amended, for an aggregate of \$884,164. The sale of additional Series A Preferred shares did not increase the calculated dilution to the common stockholders, but rather, diluted the other Series A Preferred shareholders as a group. Additionally, these newly-issued Series A shares bear a two-year holding period from the date of purchase. The funds raised in these private offerings were used for general administrative, research and development, and marketing activities.

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 2010, the Company issued 5,758,780 shares of restricted common stock and 2,500 Series A Preferred stock in lieu of \$519,756 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 \$830,611 for the fiscal year 2010. The Company also spent \$91,135 on U.S. and international patent filings during the year.

Commitments for Capital Expenditures. In 2010 the Company acquired \$31,184 of property and equipment. 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 for development and testing of its technology, and build-out of its facility to accommodate additional development and testing projects. 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.

Results of Operations

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenues. Revenues for the year ended December 31, 2010 were \$261,525 as compared to \$63,938 for the prior year, an increase of \$197,587 or 309%. This increase is due to recognition of revenue from certain contracts completed during the year, including the installation of the Bent Glass waste heat recovery system, and the delivery to Great Wall Alternative Power Systems, the Company's licensee in China, of completed engine design drawings. Also in 2010, the Company received and completed an R&D project for Raytheon Company, which is reflected in the annual revenue.

Gross Profit. Gross profit for the year ending December 31, 2010 was \$151,132 as compared to \$28,003 for the year ending December 31, 2009, an increase of \$123,129. For the year ending December 31, 2010, the Company's gross margin was 58% as a percentage

of net sales versus 44% in 2009. Management does not place great weight on these gross profit results at this time, as sales revenue and cost of goods sold figures are in an early stage of developing and refinement.

Operating Expenses. Operating Expenses incurred for the year ending December 31, 2010 were \$2,123,828 as compared to \$2,515,246 for the year ending December 31, 2009, a decrease of \$391,418 (15.6%). The majority of the decrease was due to a reduction in R&D expenses of \$285,184 (25%) and reduced general and administrative expenses of \$91,378 (7%), reflective of the assignment of more production resources to deliverable inventory (a balance sheet item) and control expenditures.

Other Expenses. In 2010 the Company recognized a loss of \$159,050 pursuant to converting debt into common stock.

Income and Earnings per Share. The net loss for the year ending December 31, 2010 was (\$2,171,409), compared to net loss of (\$2,525,101) for the year ending December 31, 2009, a lower loss of \$353,692 or 14%. This variance is due to the factors outlined above. Net loss per weighted average share was (\$0.02) for 2010 and (\$0.03) for 2009.

Liquidity and Capital Resources

At December 31, 2010, net working capital was (\$2,322,199) as compared with (\$1,886,841) at December 31, 2009, a decrease of (\$435,358) or (23.1%). In 2010, funds used by the net loss of (\$2,171,409) included: expenditures for patents of \$85,968 and an increase in inventory of \$87,977. Funds were provided by the sale of 2,062,222 shares of common stock and 141,000 shares of Series A Preferred stock for \$884,178, an increase in deferred revenue of \$122,525, and net higher related party loans and payables of \$461,508 (primarily deferred and accrued officers' salaries). Additionally, to conserve cash the Company issued 6,220,280 shares of common stock, 4,500 shares of Series A Preferred stock, and 2,040,000 common stock options collectively valued at \$519,756 for services.

The Company needs to obtain capital; however, 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. The Company's auditors have issued a going concern opinion. Management is cautiously optimistic, however, 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 past two years.**

The following table lists all offerings and issuances of shares of the Company's common stock by fiscal quarter from January 1, 2009 until December 31, 2010. Amount received by the Company for these stock issuances excludes transaction fees.

Q4 2010

# of Shares	Amount	Nature of Offering	Trading Status/Restrictions
211,310	\$ 12,500	Regulation D - Common Stock	Restricted as per Rule 144
42,000	\$ 210,000	Regulation D - Series A Preferred	Restricted as per Rule 144
681,499	\$ 47,752	Services Rendered - Common Stock	Restricted as per Rule 144
2,000	\$ 10,000	Services Rendered – Series A Preferred	Restricted as per Rule 144

Q3 2010

# of Shares	Amount	Nature of Offering	Trading Status/Restrictions
100,000	\$ 5,700	Regulation D - Common Stock	Restricted as per Rule 144
17,300	\$103,000	Regulation D - Series A Preferred	Restricted as per Rule 144
1,008,334	\$ 58,750	Services Rendered - Common Stock	Restricted as per Rule 144
2,500,000	\$ 12,500	Note Conversion - Common Stock	Restricted as per Rule 144

Q2 2010

# of Shares	Amount Paid	Nature of Offering	Trading Status/Restrictions
446,977	\$ 30,708	Regulation D - Common Stock	Restricted as per Rule 144
73,700	\$368,500	Regulation D - Preferred A Stock	Restricted as per Rule 144
699,747	\$ 55,455	Services Rendered - Common Stock	Restricted as per Rule 144
2,500,000	\$ 12,500	Note Conversion - Common Stock	Restricted as per Rule 144
22,453	\$ 99,980	Debt Conversion - Preferred A Stock	Restricted as per Rule 144

Q1 2010

# of Shares	Amount Paid	Nature of Offering	Trading Status/Restrictions
1,303,905	\$ 127,770	Regulation D - Common Stock	Restricted as per Rule 144
19,000	\$ 95,000	Regulation D - Preferred A Stock	Restricted as per Rule 144
869,200	\$ 76,471	Common Stock - Services Rendered	Restricted as per Rule 144

Q4 2009

# of Shares	Amount Paid	Nature of Offering	Trading Status/Restrictions
593,153	\$56,435	Regulation D	Restricted as per Rule 144
766,817	\$77,505	Regulation S	Restricted as per Reg S/144
2,909,900	\$258,533	Services Rendered	Restricted as per Rule 144
1,500,000	\$7,500	Note Conversion	Restricted as per Rule 144

Q3 2009

# of Shares	Amount Paid	Nature of Offering	Trading Status/Restrictions
665,902	\$87,705	Regulation D	Restricted as per Rule 144
250,000	\$34,200	Regulation S	Restricted as per Reg S/144
1,312,000	\$200,000	Services Rendered	Restricted as per Rule 144
2,000,000	\$10,000	Note Conversion	Restricted as per Rule 144
1,012,588	\$162,014	Stock for Settlement	Restricted as per Rule 144

Q2 2009

# of Shares	Amount Paid	Nature of Offering	Trading Status/Restrictions
2,349,703	\$307,120	Regulation D	Restricted as per Rule 144
366,364	\$38,964	Regulation S	Restricted as per Reg S/144
1,095,000	\$219,000	Services Rendered	Restricted as per Rule 144
2,000,000	\$10,000	Note Conversion	Restricted as per Rule 144

Q1 2009

# of Shares	Amount Paid	Nature of Offering	Trading Status/Restrictions
3,255,658	\$442,950	Regulation D	Restricted as per Rule 144
606,000	\$81,152	Services Rendered	Restricted as per Rule 144

PART F Exhibits

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 the Company's 2009 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.

LLC Operating Agreement of Cyclone-WHE LLC, dated as of October 1, 2010, filed concurrently herewith as Exhibit A.

License Agreement between Cyclone and Cyclone-WHE LLC, dated as of October 1, 2010, filed concurrently herewith as Exhibit B.

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 with the Company's 2009 Annual Report.

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, 2010, 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 15, 2011



Harry Schoell
CEO & Chairman

I, Bruce Schames, Chief Financial Officer of Cyclone Power Technologies, Inc., certify that:

1. I have reviewed the Annual Report for the period ended December 31, 2010, 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 15, 2011



Bruce Schames
Chief Financial Officer

CYCLONE POWER TECHNOLOGIES, INC.
CONSOLIDATED FINANCIAL STATEMENTS AND FOOTNOTES
DECEMBER 31, 2010 AND 2009

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Note: The following financial statements and footnotes thereto have been prepared in accordance with Generally Accepted Accounting Principles. As of the time of this filing, the Company's independent registered public accounting firm had not yet completed their review and audit. The Company plans to file an amendment to this Annual Report at such time that the audit has been completed and the auditor's report received.

CYCLONE POWER TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash	\$ 6,557	\$ 28,558
Accounts receivable	4,200	-
Inventory	228,838	140,841
Other current assets	828	6,628
Total current assets	240,423	176,027
PROPERTY AND EQUIPMENT		
Furniture, fixtures, and equipment	139,428	108,244
Less: Accumulated depreciation	(55,644)	(30,114)
Net property and equipment	83,784	78,130
OTHER ASSETS		
Patents, trademarks and copyrights	486,466	405,220
Less: Accumulated amortization	(81,115)	(51,092)
Net patents, trademarks and copyrights	405,351	354,128
Other assets	1,156	8,146
Total other assets	406,507	362,274
Total Assets	\$ 730,714	\$ 616,431
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 187,887	\$ 133,271
Accounts payable and accrued expenses-related parties	991,269	677,438
Notes and other loans payable	5,000	20,950
Notes and other loans payable-related parties	659,577	627,900
Capitalized lease obligations-current portion	6,565	10,798
Deferred revenue and license deposits	710,000	587,475
Accrued contract loss provision	-	5,036
Warranty provision	2,324	-
Total current liabilities	2,562,622	2,062,868
NON CURRENT LIABILITIES		
Capitalized lease obligations-net of current portion	2,451	7,285
Total non-current liabilities	2,451	7,285
Total Liabilities	2,565,073	2,070,153
STOCKHOLDERS' DEFICIT		
Series A convertible preferred stock, \$.0001 par value, 750,000 shares authorized, 705,453 and 540,000 shares issued and outstanding at December 31, 2010 and 2009, respectively	71	54
Series B preferred stock, \$.0001 par value, 1,000 shares authorized, 1,000 shares issued and outstanding	-	-
Common stock, \$.0001 par value, 300,000,000 shares authorized, 114,020,135 and 103,699,133 shares issued and outstanding at December 31, 2010 and 2009, respectively	11,402	10,369
Additional paid-in capital	8,115,405	6,438,183
Prepaid expenses from equity contribution	(27,500)	-
Preferred stock subscription receivable	(18,000)	(18,000)
Accumulated deficit	(10,050,612)	(7,884,328)
Total stockholders' deficit	(1,969,234)	(1,453,722)
Non controlling interest in consolidated subsidiary	134,875	-
Total Stockholders' Deficit	(1,834,359)	(1,453,722)
Total Liabilities and Stockholders' Deficit	\$ 730,714	\$ 616,431

See the accompanying notes to consolidated financial statements

CYCLONE POWER TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
REVENUES	\$ 261,525	\$ 63,938
COST OF GOODS SOLD	110,393	35,935
Gross Profit	151,132	28,003
OPERATING EXPENSES		
Advertising and promotion	51,838	66,694
General and administrative	1,241,379	1,332,757
Research and development	830,611	1,115,795
Total operating expenses	2,123,828	2,515,246
Operating loss	(1,972,696)	(2,487,243)
OTHER INCOME (EXPENSE)		
Other income (expense)	(159,050)	10,387
Interest (expense)	(39,663)	(48,245)
Total other expense	(198,713)	(37,858)
Loss before income taxes	(2,171,409)	(2,525,101)
Income taxes	-	-
Net loss	\$ (2,171,409)	\$ (2,525,101)
Net loss per common share, basic	\$ (0.02)	\$ (0.03)
Weighted average number of common shares outstanding	107,100,629	95,553,636

See the accompanying notes to consolidated financial statements

CYCLONE POWER TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR YEARS ENDED DECEMBER 31, 2010 AND 2009

	Preferred Stock A		Preferred Stock B		Common Stock		Additional Paid In Capital	Prepaid Expenses From Equity Contribution	Preferred Stock Subscription Receivable	Non Controlling Interest In Consol. Subsidiary	Accumulated Deficit	Total Stockholders Deficit
	Shares	Value	Shares	Value	Shares	Value						
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	
Conversion of debt to preferred stock	25,000	3	-	-	0	0	29,997	-	-	-	30,000	
Issuance of preferred stock A for notes receivables	15,000	1	-	-	0	0	21,195	-	(18,000)	-	3,196	
Issuance of common stock pursuant to reverse merger	-	-	-	-	1,012,588	101	(101)	-	-	-	0	
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)
Issuance of restricted shares for outside services	2,000	-	-	-	4,077,280	409	364,967	-	-	-	365,376	
Issuance of restricted shares and options for employee services	2,500	1	-	-	1,681,500	168	157,234	-	-	-	157,403	
Sale of common stock	-	-	-	-	2,062,222	206	163,372	-	-	-	163,578	
Sale of preferred stock	141,000	14	-	-	-	-	635,997	-	-	-	636,011	
Warrants issued pursuant to preferred stock sale	-	-	-	-	-	-	84,589	-	-	-	84,589	
Conversion of debt to common stock	-	-	-	-	2,500,000	250	171,300	-	-	-	171,550	
Conversion of debt to preferred stock	19,953	2	-	-	-	-	99,763	-	-	-	99,765	
Conversion of debt to equity in subsidiary	-	-	-	-	-	-	-	-	30,000	-	30,000	
Sale of equity in subsidiary for cash	-	-	-	-	-	-	-	-	-	50,000	50,000	
Issuance of equity in subsidiary for services	-	-	-	-	-	-	-	(60,000)	-	60,000	0	
Amortization of prepaid services for subsidiary equity	-	-	-	-	-	-	-	32,500	-	-	32,500	
Allocation of loss of subsidiary to non controlling interest	-	-	-	-	-	-	-	-	(5,125)	5,125	0	
Net loss year ended December 31, 2010	-	-	-	-	-	-	-	-	-	(2,171,409)	(2,171,409)	
Balance, December 31, 2010	705,453	71	1,000	-	114,020,135	11,402	\$8,115,405	\$ (27,500)	(18,000)	\$ 134,875	\$(10,050,612)	\$(1,834,359)

See the accompanying notes to consolidated financial statements

CYCLONE POWER TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,171,409)	\$ (2,525,101)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	55,587	49,649
Issuance of restricted common and preferred stock and options for services	522,779	893,685
Write-off of abandoned patent	9,855	24,715
Amortization of prepaid expenses purchased with equity	32,500	-
Forgiveness of debt income	(2,685)	10,387
Loss on conversion of debt to stock	159,050	-
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(4,200)	37,245
(Increase) in inventory	(87,997)	(122,712)
Decrease (increase) in other assets	12,790	(13,004)
Increase in deferred revenue and deposits	122,525	575,964
(Decrease) in provision for contract loss	(5,036)	-
Increase in accounts payable and accrued expenses	57,449	5,687
Increase in accounts payable and accrued expenses-related parties	339,831	304,008
Increase in warranty provision	2,324	-
Net cash used by operating activities	(956,637)	(759,477)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures incurred for patents, trademarks and copyrights	(85,968)	(125,035)
Expenditures for furniture and equipment	(31,184)	(35,318)
Net cash used by investing activities	(117,152)	(160,353)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in loans-net	5,000	(75,060)
Sale of equity in subsidiary for cash	50,000	-
Payment of capitalized leases	(9,067)	(6,962)
Proceeds from sale of common stock	163,578	1,007,251
Proceeds from sale of preferred stock	720,600	3,196
Increase in related party notes and loans payable	121,677	18,597
Net cash provided by financing activities	1,051,788	947,022
Net (decrease) increase in cash	(22,001)	27,192
Cash at beginning of year	28,558	1,366
Cash at end of year	\$ 6,557	\$ 28,558
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Payment of interest in cash	\$ 2,955	\$ 1,193
Payment of income taxes in cash	\$ -	\$ -
NON CASH INVESTING AND FINANCING ACTIVITIES:		
Conversion of debt to common and preferred stock	\$ 289,610	\$ 50,000
Issuance of preferred stock for notes receivable	\$ -	\$ 18,000
Equipment acquired via capital lease	\$ -	\$ 27,401
Conversion of debt to equity in subsidiary	\$ 30,000	\$ -
Issuance of common stock pursuant to reverse merger adjustment	\$ -	\$ 101

See the accompanying notes to consolidated financial statements

CYCLONE POWER TECHNOLOGIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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 “LLL”), a limited liability limited partnership formed in Florida in June 2004. The LLLP was the original developer and intellectual property holder of the Cyclone engine technology.

On July 2, 2007, the LLLP merged into Cyclone Power Technologies, Inc., a publicly-traded Florida corporation that had recently re-domiciled from California and changed its name from Coastal Technologies, Inc. (the “Pink Sheet Company”). Prior to the merger, the Pink Sheet Company was engaged in the business of medical software development, which the Company divested concurrently with the merger.

In the third quarter of 2010, the Company signed a license agreement with its subsidiary, Cyclone-WHE LLC (the “Subsidiary”) to allow the subsidiary to begin marketing waste heat recovery systems for all Cyclone engine models. As of December 31, 2010, the Company had an 82.5% equity interest in the Subsidiary.

The Company is primarily a research and development engineering company whose main purpose is to develop, commercialize, market and license 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. PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Cyclone Power Technologies and its 82.5% owned Subsidiary. All material inter-company transactions and balances have been eliminated in the consolidated financial statements. The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles.

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.

D. 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 such 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. Management evaluated events occurring between the end of the Company's fiscal year, December 31, 2010, and when the financial statements were available to be issued.

E. CASH

Cash includes cash on hand and cash in banks. The Company maintains cash balances at several financial institutions.

F. ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts due pursuant to research and development prototype charges. At December 31, 2010 and 2009, no allowance for doubtful accounts was deemed necessary.

G. 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. As of December 31, 2010, total anti-dilutive shares amounted to approximately 214,435,000 shares.

H. 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 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 estimated. As of December 31, 2010, 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 2007 through 2009.

I. REVENUE RECOGNITION

The Company's revenue recognition policies are in compliance with accounting Codification as ASC 605, and Staff Accounting Bulletin ("SAB") 104, *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 record royalty revenue in the quarter received. The Company does not have any royalty revenue to date.

J. INVENTORY

Inventory is recorded at the lower of standard cost or market. Standard costs for material, labor and allocated overhead, are reflective of the estimated costs to manufacture a completed engine after related developmental research and development expenses have been provided for.

K. 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, accounts payable and accrued expenses, and loans payable approximate their fair market value based on the short-term maturity of these instruments.

L. RESEARCH AND DEVELOPMENT

Research and development activities for product development are expensed as incurred. Costs for the years ended December 31, 2010 and 2009 were \$830,611 and \$1,115,795, respectively.

M. STOCK BASED COMPENSATION

The Company applies the fair value 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.

N. 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*.

O. 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 as follows:

Computers and trade show equipment	3 years
Shop equipment	7 years
Furniture, fixtures, and leasehold improvements	10-15 years

Expenditures for maintenance and repairs are charged to operations as incurred.

P. 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. To date, the Company has not recognized any impairment charges.

Q. RECLASSIFICATIONS

Certain balances from the prior year have been reclassified to conform to the financial statement presentation adopted for this year.

R. CURRENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standard Board (FASB) in October 2009 issued Account 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 was effective after June 15, 2010, and early adoption was 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 does not believe that this Topic currently has an impact on these financial statements.

NOTE 2 - GOING CONCERN

As shown in the accompanying financial statements, the Company incurred substantial net losses for the years ended December 31, 2010 and 2009 of \$2,171,409 and \$2,525,101, respectively. Cumulative deficit since inception are approximately \$10,000,000. The Company has a working capital deficit at December 31, 2010 of \$2,322,199. 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.

The ability of the Company to continue as a going concern is dependent on management’s plans, which includes implementation of its business model to generate revenue from development contracts, licenses and product sales, and continuing to raise funds through debt or equity raises. The Company will also likely continue to rely upon related-party debt or equity financing.

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 - INVENTORY

Inventory at December 31, 2010 and 2009 consists of:

	<u>2010</u>	<u>2009</u>
Engine material and parts	\$183,893	\$109,268
Labor	38,556	18,673
Applied overhead	<u>6,389</u>	<u>12,900</u>
Total Inventory	<u>\$228,838</u>	<u>\$140,841</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Display Equipment for Trade Shows	\$9,648	\$9,648
Leasehold Improvements and Furniture and Fixtures	46,332	39,953
Equipment and Computers	<u>83,448</u>	<u>58,643</u>
Total	139,428	108,244
Less: Accumulated Depreciation and Amortization	<u>55,644</u>	<u>30,114</u>
Net Property and Equipment	<u>\$83,784</u>	<u>\$78,130</u>

Depreciation and amortization expense for the years ended December 31, 2010 and 2009 was \$25,530 and \$14,704, respectively.

NOTE 5 – PATENTS AND TRADEMARKS AND COPYRIGHTS

The Cyclone Engine is currently protected under the following U.S. Patents:

- Heat Regenerative Engine (US Patent No. 7,080,512 B2)
- Heat Regenerative Engine (Continuation)(US Patent No. 7,856,822 B2)
- Steam Generator in a Heat Regenerative Engine (US Patent No. 7,407,382)
- Engine Reversing and Timing Control Mechanism (US Patent No. 7,784,280 B2)
- Centrifugal Condenser (US Patent No. 7,798,204 B2)
- Valve Controlled Throttle Mechanism (US Patent No. 7,730,873 B2)
- Pre-Heater Coil in a Heat Regenerative Engine (US Patent No 7,856,823 B2)
- Engine Shrouding with Air to Air Exchanger (Ser. No. 11/879,586)
- Spider Bearing (Ser. No. 11/879,589)
- Waste Heat Engine (pending)

The Company also has received patents for the main Cyclone engine in eight other 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 three more countries. 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. The net balances as of December 31, 2010 and 2009 was \$405,351 and \$354,128, respectively. For the years ended December 31, 2010 and 2009, \$85,968 and \$125,035 was capitalized, respectively. Patents, trademarks and copyrights are amortized over the life of the intellectual property which is 15 years. Amortization for the years ended December 31, 2010 and 2009 was \$30,057 and \$31,159, respectively. The Company wrote off \$9,855 and \$24,715 for abandoned patents in 2010 and 2009, respectively.

NOTE 6 – NOTES AND OTHER LOANS PAYABLE

A summary of non-related party notes and other loans payable as of December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
6% uncollateralized convertible note payable on demand for original principle amount of \$62,275 (converted into 2,500,000 shares of common stock)	\$ -	\$ 15,950
6% uncollateralized \$5,000 demand note	5,000	-
6% uncollateralized demand note (converted into 1,153 shares of Series A Preferred Stock)	-	5,000
	-----	-----
Total current non related party notes and loans payable (accrued interest is included in accrued liabilities)	<u>\$ 5,000</u>	<u>\$ 20,950</u>

A summary of related party notes and other loans payable as of December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
6% demand loans from Company owned by shareholder, collateralized by lien on Company's patent application for its waste heat engine, balance includes principal and unpaid interest at December 31, 2010 and 2009 of \$7,727 and \$5,524, respectively	\$ 7,727	\$96,282
6% demand loans per Operations Agreement with Schoell Marine Inc., a company owned by Cyclone's CEO and controlling shareholder, collateralized by lien on Cyclone's patent for heat regenerative engine, balance includes principal and unpaid annual interest at December 31, 2010 and 2010 of \$32,763 and \$32,460, respectively (A)	559,963	531,618
6% non-collateralized loan from officer and shareholder, payable on demand. Includes unpaid annual interest of \$5,419. The original principle balance was \$137,101.	91,887	-
	-----	-----
Total current related party notes, inclusive of accrued interest	<u>\$ 659,577</u>	<u>\$ 627,900</u>

(A) 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 permits. The note is secured by a UCC-1 filing on the Company's patents and patent applications. During the year ending December 31, 2010, \$9,916 was paid on the note balance.

NOTE 7 – RELATED PARTY TRANSACTIONS

A. LEASE ON FACILITIES

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, 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, 2010 and 2009 were \$62,964 and \$76,320, 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 as of December 31, 2010 and 2009 is \$970,614 and \$664,173, respectively, 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

The Series A Convertible Preferred stock (the "Series A Preferred") as a group is currently convertible into a number of common shares that equal sixty percent (60%) of the total issued and outstanding common shares of the Company, less 33 million common shares. The Series A Preferred stock holders were in initially the original equity holders of LLLP, but in 2010, the Company issued additional shares of Series A Preferred stock to accredited investors in a private placement. These newly issued shares have a two-year holding period from the date of issuance. The conversion of the Series A Preferred shares will have the effect of diluting all other common stock shareholders; however, the issuance of the new Series A Preferred shares did not increase this dilution to the common stock holders. As of December 31, 2010, the Series A shares were convertible into approximately 88.5 million shares of common stock. The Series B Preferred Stock is majority voting shares and is 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 assist in the funding of operations.

During the year ended December 31, 2010, the Company issued 2,500 shares of Series A Preferred shares, 1,681,500 shares of restricted common stock, and options convertible into 2,040,000 shares of common stock, cumulatively valued at \$157,403 for employee services, of which \$139,692 was charged to general and administrative services, and \$17,720 was for research and development related services and activities. Additionally, the Company issued 2,000 shares of Series A Preferred shares and 4,077,280 shares of restricted common stock valued at \$365,376 for outside services.

During the year ended December 31, 2009, the Company issued 7,422,900 shares of restricted common stock for services, of which \$748,054 was charged to general and administrative services, and \$145,631 was for research and development related services and activities.

During the year ended December 31, 2010, the Company sold 2,062,222 shares of restricted common stock for \$163,578, and 141,000 shares of Series A Preferred stock for \$720,586. The Company also converted \$171,550 of debt into 2,500,000 shares of common stock and \$99,765 of debt into 19,953 shares of Series A Preferred stock.

In 2009, the Company issued 40,000 shares of Series A Preferred Stock for \$3,196 of cash, conversion of \$30,000 of notes payable to the Company, and \$18,000 of subscription notes receivable. The notes receivable accrue interest at 7% per annum and are due on the earlier of August 1, 2011 or the date on which the Series A Preferred stock is converted into common stock by the resolution of a majority of the holders of the Series A Preferred stock.,

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 – STOCK OPTIONS AND WARRANTS

A. COMMON STOCK OPTIONS

For the year ended December 31, 2010, the Company issued options convertible into 1,070,000 shares of common stock to employees and staff, with an average exercise price per share of \$.122, and an average maturity life of 5.8 years. The income statement charge for the year ended December 31, 2010 was \$64,988 and the unamortized balance was \$178,414.

A summary of the common stock options for the years ended December 31, 2010 and 2009 follows:

	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
<u>Common Stock Options</u>			
Balance, December 31, 2008	1,000,000	0.325	8.5
Options issued	-	-	-
Options exercised	-	-	-
Options cancelled	-	-	-
	<hr/>	<hr/>	<hr/>
Balance, December 31, 2009	1,000,000	0.325	7.5
Options issued	1,070,000	0.122	5.8
Options exercised	-	-	-
Options cancelled	-	-	-
	<hr/>	<hr/>	<hr/>
Balance, December 31, 2010	<u>2,070,000</u>	<u>0.220</u>	<u>6.4</u>

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

	Years Ended December 31,	
	2010	2009
Risk Free Interest Rate	.6% - 1.18%	2.0%
Expected Volatility	458% - 628%	72%
Expected term of in years	2-3	1-2
Expected dividend yield	0%	0%
Average value per options & warrant	\$.09 - \$.14	\$.02-.05

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 warrants and the weighted average vesting period for all tranches.

B. COMMON STOCK WARRANTS

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 2011. 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 2011.

In conjunction with the sale of Series A Preferred stock, 770,500 stock purchase warrants were issued in August 2010, at an exercise price of \$.15 per share, that had a 2 year exercise provision.

In 2009, as part of the license and royalty agreement with Renovalia Energy S.A. (“Renovalia”) 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 expired in 2010.

A summary of outstanding warrants for the years ended December 31, 2010 and 2009 follows:

	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
<u>Common Stock Warrants</u>			
Balance, December 31, 2008	250,000	\$.08	0.9
Warrants issued	10,073,983	.238	-
Warrants exercised	-	-	-
Warrants cancelled	(250,000)	.08	-
	<hr/>	<hr/>	<hr/>
Balance, December 31, 2009	10,073,983	.238	*
Warrants issued	770,500	.150	2
Warrants exercised	-	-	-
Warrants cancelled	(8,000,000)	-	-
	<hr/>	<hr/>	<hr/>
Balance, December 31, 2010	<u>2,844,483</u>	<u>\$.238</u>	<u>*</u>

*Vesting conditioned upon future events

NOTE 11 – INCOME TAXES

A reconciliation of the differences between the effective income tax rates and the statutory federal tax rates for 2010 and 2009 are as follows:

	<u>2010</u>	<u>Amount</u>	<u>2009</u>	<u>Amount</u>
Tax benefit at U.S. statutory rate	34%	\$738,279	34%	\$858,534
State taxes, net of federal benefit	4	86,856	4	101,004
Change in valuation allowance	<u>(38)</u>	<u>(825,135)</u>	<u>(38)</u>	<u>(959,538)</u>
	<u>- %</u>	<u>\$ - .</u>	<u>- %</u>	<u>\$ - .</u>

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2010 and 2009 consisted of the following:

Deferred Tax Assets	<u>2010</u>	<u>2009</u>
Net Operating Loss Carryforward	\$5,355,318	\$6,247,795
Deferred Tax Liabilities – Accrued Salaries	<u>(244,411)</u>	<u>(296,666)</u>
Net Deferred Tax Assets	5,110,907	5,951,129
Valuation Allowance	<u>(5,110,907)</u>	<u>(5,951,129)</u>
Total Net Deferred Tax Assets	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2010, the Company had a net operating loss carry forward for income tax reporting purposes of approximately \$7 million that may be offset against future taxable income through 2029. 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. 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 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 2010 and 2009 were \$9,067 and \$6,962, respectively. The balance of leases payable at December 31, 2010 was \$9,016. Future lease payments are:

2011	\$ 6.565
2012	904
2013	1,095
2014	<u>452</u>
	<u>\$ 9,016</u>

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.

The Company is not involved in any litigation at this time.

NOTE 15 – CONSOLIDATED SUBSIDIARY

Commencing in the second quarter of 2010, the Company has started operations in the Subsidiary (Cyclone-WHE LLC) to license and market waste heat recovery systems for all engine models. A 5% equity participation was sold to a minority investor for \$30,000, via the conversion of a Cyclone note payable. 5% was purchased directly from the Subsidiary by a minority investor for services valued at \$30,000 consisting of assistance in marketing, management and financing for projects to be carried out by the Subsidiary. These services are being amortized over a 12 month period. This investor also received and exercised a 2.5% equity purchase warrant in the Subsidiary for \$50,000.

Effective July 1, 2010, a 5% equity contribution was provided to the new Managing Director of the Subsidiary in consideration of \$30,000 of future professional services (which are being amortized over a 12 month period). Additionally, options were given for the acquisition of an additional 5% equity in the subsidiary at a total price of \$100,000, vesting half in 12 months and half in 24 months, exercisable for 5 years.

NOTE 16 - SUBSEQUENT EVENTS

In the first quarter of 2011, the Company closed a \$1 million private placement of 200,000 shares of Series A Preferred stock, which commenced in 2010. In the recent quarter, the Company collected \$232,735 for the sale of 46,547 Series A Preferred shares. The Company also sold 950,655 shares of restricted common stock for \$123,500 in the first quarter of 2011.