



one planet one engine™

## Letter to Shareholders - 3rd Quarter

November 18, 2009

Dear Valued Shareholder,

It has been an exciting quarter for Cyclone Power Technologies, one in which we have made considerable progress from both a technology and business development standpoint. It is our pleasure to share some of the highlights with you today.

In the past quarter we successfully completed the development and performance testing of our first generation Mark II Engine, a two-cylinder external combustion engine designed for small scale electric power generation. These tests were performed under our Independent Research and Development (IRAD) contract signed last year with Raytheon Integrated Defense Systems, a business of Raytheon Company.

During a two-month period Raytheon IDS meticulously reviewed the findings and validated the results of our tests, in which we demonstrated that the Mark II Engine achieved thermal efficiencies of 30.75%. This figure matched our original engineering calculations, and to put it into perspective, exceeded the efficiencies of most similarly-sized internal combustion engines in the market today. Because of the success of our tests and the great potential Raytheon sees in our engines for military, homeland defense and other important applications worldwide, we have begun discussions with this \$23 billion technology contractor regarding the next phases of a collaborative project slated for 2010.

We also completed development of a working prototype biomass-to-power generator in the third quarter, the first system of its kind capable of allowing homes, farms and small commercial enterprises to produce electricity from vegetative waste and byproducts. This prototype unit is a compact system that utilizes our award-winning Waste Heat Engine (WHE) to produce power from heat derived from biomass combustion. We are now performance and endurance testing the system before delivery to our client Robotic Technologies, which commissioned the system pursuant to its Phase II SBIR project sponsored by the Defense Advanced Research Projects Agency (DARPA). (By the way, you may have seen this dynamic application of our engine featured recently on Fox News, Popular Science, Scientific American, Discover Magazine and Wired.)

The pre-production prototype of our flagship 100HP Mark V Engine is also nearing completion, with air and steam testing happening now. This engine, which was named Popular Science's 2008 Invention of the Year, is adaptable for applications as diverse as passenger automobiles (with over 850 ft.lbs. of starting torque), to electric power generation from biofuels, waste oils and even industrial waste heat. We hope to have more results and video to share with you in the next quarter.

From a business standpoint we generated \$102,000 in revenue in the first nine months of 2009, not inclusive of \$425,000 of deferred revenue from non-refundable license and development fees that we will recognize upon the delivery of prototype engines to our licensees. We incurred \$1.8 million in operating losses since January; however, a substantial portion of this (\$500,000) was from the issuance of restricted stock to our employees, consultants and other professionals in lieu of cash - which we consider a very positive sign of support from these extremely talented and dedicated people.

We ended the period with over \$52,000 in the bank at September 30 and total current assets of \$187,000. We do not want this cash position to overly concern our shareholders, because since the end of the quarter we have

received an additional \$132,000 in license and development fees and \$85,000 from the sale of restricted stock, and now believe we have cash and current cash commitments under our several agreements to operate at full strength well into 2010. You can find additional financial information in our Quarterly Report for the fiscal period ended September 30, 2009, as filed with [www.pinksheets.com](http://www.pinksheets.com).

In late July we also signed a very interesting license agreement with Phoenix Power Group for electric power generators that run on waste oil fuels, such as used automotive motor oil. Under its license, Phoenix is obligated to pay us \$400,000 in license and development fees over the next nine to 12 months, \$150,000 of which we received in August, and then on-going royalties on each Cyclone Engine produced. Phoenix has agreed to pay guaranteed minimum royalties over the life of the agreement in an amount exceeding \$4 million in order to maintain its rights.

One final accounting item to report - we have engaged the CPA firm of Mallah, Furman & Company P.A. to audit our financial statements for the periods ended December 31, 2008 and 2009, in compliance with GAAP and accounting regulations of the Securities and Exchange Commission. We believe that this audit constitutes a critical first step towards Cyclone becoming a fully reporting registrant under the federal securities laws and, ultimately, moving our common stock to a national exchange, as that is our intention.

Between the strides we have made in our engine technology and the new agreements, partnerships and licenses we have signed or are currently pending, we are very optimistic about our prospects. We believe that a bright future for Cyclone will mean a brighter future for our nation and our planet. This is the reason we push ahead every day - for something bigger and greater than us individually. We are very happy that you see that vision too, and can join us along this exciting journey.

Sincerely,

Harry Schoell, CEO & Director