CYCLONE POWER TECHNOLOGIES INC
Form 10-Q
March 20, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2016

or

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to ________

Commission File Number: 000-54449

Cyclone Power Technologies, Inc.

(Exact name of registrant as specified in its charter)

Florida	**26-0519058**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
601 NE 26th Ct Pompano Beach, Florida	**33064**
(Address of principal executive offices)	*(Zip Code)*

(954) 943-8721

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

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

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [X]

(Do not check if a smaller reporting company)

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

As of Dec 31, 2016, there were 1,517,400,273 shares of the registrant's common stock issued and outstanding.

CYCLONE POWER TECHNOLOGIES, INC.

QUARTERLY REPORT ON FORM 10-Q

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CYCLONE POWER TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30 2016 (Unaudited)	December 31 2015
ASSETS		
CURRENT ASSETS		
Cash	$14,861	$-
Inventory, net	349,513	323,508
Other current assets	250	587
Total current assets	364,624	324,095
PROPERTY AND EQUIPMENT		
Furniture, fixtures, and equipment	302,770	304,569
Accumulated depreciation	(193,577)	(178,049)
Net property and equipment	109,193	126,520
OTHER ASSETS		
Patents, trademarks and copyrights	539,446	539,446
Accumulated amortization	(273,622)	(256,078)
Net patents, trademarks and copyrights	265,824	283,368
Other assets	8,062	8,062
Total other assets	273,886	291,430
Total Assets	$747,703	$742,045
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Bank overdraft	$-	$3,221
Accounts payable and accrued expenses	1,337,627	1,159,133
Accounts payable and accrued expenses-related parties	377,725	210,225
Notes and other loans payable-current portion	424,917	357,737
Derivative liabilities	380,705	383,482
Notes and other loans payable-related parties	385,304	321,334

Capitalized lease obligations-current portion	13,916	12,950
Deferred revenue and license deposits	188,826	148,031
Total current liabilities	3,109,020	2,596,113
NON CURRENT LIABILITIES		
Capitalized lease obligations-net of current portion	28,219	36,939
Notes and other loans payable-net of current portion	-	50,000
Total non-current liabilities	28,219	86,939
Total Liabilities	3,137,239	2,683,052
Commitments and contingencies		
STOCKHOLDERS' DEFICIT		
Series B preferred stock, $.0001 par value, 1,000 shares authorized, 1,000 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively.	-	-
Common stock, $.0001 par value, 4,000,000,000 shares authorized, 1,437,400,273 and 1,388,669,532 shares issued and outstanding at June 30, 2016 and December 31, 2014 respectively.	143,738	138,864
Additional paid-in capital	56,706,255	56,621,826
Treasury Stock, 317,000 shares, at June, 30 2016 and December 31, 2015 respectively, at cost.	(3,000)	(3,000)
Accumulated deficit (inclusive of non-cash derivative losses of $32,262,895 and other losses of $27,002,673 at June 30, 2016 and non-cash derivative losses of $32,253,992 and other losses of $26,473,744 at December 31, 2015)	(59,265,568)	(58,727,736)
Total stockholders' deficit-Cyclone Power Technologies Inc.	(2,418,575)	(1,970,046)
Non controlling interest in consolidated subsidiaries	29,039	29,039
Total Stockholders' Deficit	(2,389,536)	(1,941,007)
Total Liabilities and Stockholders' Deficit	$747,703	$742,045

The accompanying notes are an integral part of these consolidated financial statements

CYCLONE POWER TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015
REVENUES	$-	$-	$-	$-
COST OF GOODS SOLD	-	-	-	-
Gross margin	-	-	-	-
OPERATING EXPENSES				
Advertising and promotion	5,839	434	548	180
General and administrative	385,509	401,014	194,890	129,435
Research and development	73,850	188,164	39,157	81,237
Total operating expenses	465,198	589,612	234,595	210,852
Operating loss	(465,198)	(589,612)	(234,595)	(210,852)
OTHER (EXPENSE) INCOME				
Other income (expense)	(12,969)	(50,000)	(13,469)	-
Derivative income / (expense) -notes payable	2,777	(10,811)	456	6,843
Interest (expense)	(62,442)	(227,854)	(29,614)	(86,631)
Total other (expense)	(72,634)	(288,665)	(42,627)	(79,788)
Loss before income taxes	(537,832)	(878,277)	(277,222)	(290,640)
Income taxes	-	-	-	-
Net loss	$(537,832)	$(878,277)	$(277,222)	$(290,640)
Net loss per common share, basic and diluted	$(0.00)	$(0.00)	$(0.00)	$(0.00)
Weighted average number of common shares outstanding, basic and diluted	1,393,890,683	1,082,119,889	1,403,288,754	353,877,991

See accompanying notes to the condensed consolidated financial statements

4

CYCLONE POWER TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(537,832)	$(878,277)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	34,872	38,031
Issuance of restricted common stock, options and warrants for services	987	62,953
Loss on liabilities and debt paid with common stock	57,383	50,000
Expenses paid with stock	6,000	-
(Gain)/loss from derivative liability-notes payable	(2,777)	10,811
Amortization of derivative debt discount	11,680	132,531
Interest paid with stock	-	11,371
Amortization of prepaid expenses via common stock and warrants	-	28,459
Changes in operating assets and liabilities:		
(Increase) decrease in inventory	(26,005)	(46,417)
Decrease in other current assets	337	15,240
(Decrease) increase in cash overdraft	(3,221)	1,228
Increase in accounts payable and accrued expenses	203,521	226,286
Increase in accounts payable and accrued expenses-related parties	167,500	186,470
Increase in deferred revenue and deposits	40,700	25,000
Net cash used by operating activities	(46,855)	(136,314)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures incurred for patents, trademarks and copyrights	-	-
Expenditures for property and equipment	-	-
Net cash used by investing activities	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of capitalized lease obligations	(7,754)	(5,254)
Proceeds from notes and loans payable	7,000	50,000
Repayment of notes and loans payable	(1,500)	-
Increase in related party notes and loans payable-net	63,970	91,290
Net cash provided by financing activities	61,716	136,036
Net increase in cash	14,861	(278)
Cash, beginning of period	-	278
Cash, end of period	$14,861	$-
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Payment of interest in cash	$3,379	$11,372
NON CASH INVESTING AND FINANCING ACTIVITIES:		

Issuance of 45,730,741 shares of Common stock for liability settlements	$24,932	$-
Issuance of 3,000,000 shares of Common stock for services	$6,000	$-
Issuance of 40,000,000 shares of Common stock for liability settlement	$-	$14,000
Issuance of 5,250,000 shares of Common stock pursuant to prior year common stock price guarantees	$-	$52,500
Issuance of 328,161,744 shares of Common stock for debt repayment	$-	$109,462
Issuance of 35,959,970 shares of Common stock for debt interest	$-	$11,372

See accompanying notes to the condensed consolidated financial statements

CYCLONE POWER TECHNOLOGIES, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 – ORGANIZATIONAL AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION AND OPERATIONS

Cyclone Power Technologies, Inc. (the “Company”, “our,” “Cyclone”) is the successor entity to the business of Cyclone Technologies LLLP (the “LLLP”), a limited liability limited partnership formed in Florida in September 2004. The LLLP was the original developer and intellectual property holder of the Cyclone engine technology. The Company is primarily a research and development engineering company whose main purpose is to develop, commercialize, market and license its Cyclone engine technology.

In 2012, the Company established Cyclone Performance LLC (“Cyclone Performance”) f/k/a Cyclone-TeamSteam USA, LLC. The purpose of Cyclone Performance is to build, test and run a vehicle utilizing the Company’s engine. As of December 31, 2014, through June 30, 2016 the company had a 95% controlling interest in Cyclone

Performance.

B. PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of the Company and its 95% owned subsidiary Cyclone Performance. All material inter-company transactions and balances have been eliminated in the condensed consolidated financial statements

The Company prepares its consolidated financial statements in conformity with account principles generally accepted in the United States (“U.S. GAAP”). The accounting principles utilized by the Company require the Company to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, the reported amounts of revenues and expenses, cash flows and the related footnote disclosures during the periods. On an on-going basis, the Company reviews and evaluates its estimates and assumptions, including, but not limited to, those that relate to the realizable value of inventory, identifiable intangible assets and other long-lived assets, contracts, income taxes, derivative liabilities, and contingencies. Actual results could differ from these estimates.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to interim financial information and the requirements of Form 10-Q and Article 10 of Regulation S-X of the SEC. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete consolidated financial statements. Interim results are not necessarily indicative of results for a full year. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position and the results of operations and cash flows for the interim periods have been included. Complete financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2015, as filed with the Securities and Exchange Commission as part of the Company’s Form 10-K.

The financial statements presented for the six and three months ended June 30, 2016 and 2015 are unaudited .

C. CASH

Cash includes cash on hand and cash in banks. At June 30, 2016 and December 31, 2015, the Company maintained cash balances at one financial institution.

D. COMPUTATION OF INCOME (LOSS) PER SHARE

Net income (loss) per share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (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 June 30, 2016 and 2015, total anti-dilutive shares amounted to approximately 14.3 million and 13.8 million shares, respectively.

E. INCOME TAXES

Income taxes are accounted for under the asset and liability method as stipulated by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, "*Income Taxes*" ("ASC 740"). 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.

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, 2015, the Company does not believe it has any uncertain tax positions that would result in the Company having a liability to the taxing authorities. Interest related to the unrecognized tax benefits is recognized in the consolidated financial statements as a component of income taxes. The Company's tax returns are subject to examination by the federal and state tax authorities for the years ended 2013 through 2015.

F. REVENUE RECOGNITION

The Company's revenue recognition policies are in compliance with ASC 605, "*Revenue Recognition – Multiple Element Arrangements*", and Staff Accounting Bulletin ("SAB") 104, *Revenue Recognition*. Revenue is recognized at the date of shipment of engines and systems, engine 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. Revenue from contracts for multiple deliverables and milestone method recognition are evaluated and allocated as appropriate. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as deferred revenue on the consolidated balance sheets. The Company does not allow its customers to return prototype products. Current contracts do not require the Company to provide any warranty assistance after the "deliverable" has been accepted.

It is the Company's intention when it has royalty revenue from its contracts to record royalty revenue periodically when earned, as reported in sales statements from customers. The Company does not have any royalty revenue to date.

G. WARRANTY PROVISIONS

Current contracts do not require warranty assistance subsequent to acceptance of the "deliverable R&D prototype" by the customer. For products that the Company will sell in the future, warranty costs are anticipated to be borne by the manufacturing vendor.

H. INVENTORY

Inventory is recorded at the lower of cost or market. Costs include material, labor and allocated overhead to manufacture a completed engine. These costs are periodically evaluated to determine if they have a net realizable value. If the net realizable value is lower than the carrying amount, a reserve is provided.

I. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820, "*Fair Value Measurements and Disclosures*" requires disclosures of information about the fair value of certain financial instruments for which it is practicable to estimate the value. The carrying amounts reported in the balance sheet for cash, accounts payable and accrued expenses, and loans payable approximate their fair market value based on the short-term maturity of these instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's own assumptions based on the best information available in the circumstances. The fair value hierarchy prioritizes the inputs used to measure fair value into three broad levels. The three levels of the fair value hierarchy are defined as follows:

Level 1	– Inputs are quoted prices in active markets for identical assets or liabilities as of the reporting date.
Level 2	– Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, as of the reporting date.
Level 3	– Unobservable inputs for the asset or liability that reflect management's own assumptions about the assumptions that market participants would use in pricing the asset or liability as of the reporting date.

The summary of fair values and changing values of financial instruments as of January 1, 2016 (beginning of period) and June 30, 2016 (end of period) is as follows:

Instrument	**Beginning of Period**	Change	**End of Period**	Level	**Valuation Methodology**
Derivative liabilities	$383,482	$(2,777)	$380,705	3	Stochastic Process Forecasting Model

Please refer to Note 16 for disclosure and assumptions used to calculate the fair value of the derivative liabilities.

J. RESEARCH AND DEVELOPMENT

Research and development activities for product development are expensed as incurred. Costs for the six months ended June 30, 2016 and 2015 were $73,850 and $188,164, respectively.

K. STOCK BASED COMPENSATION

The Company applies the fair value method of ASC 718, "*Share Based Payment*", 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. The Company values stock based compensation at the market price for the Company's common stock as of the date in which the obligation for payment of services is incurred.

L. COMMON STOCK OPTIONS AND PURCHASE WARRANTS

The Company accounts for common stock options and purchase warrants at fair value in accordance with ASC 815-40, "*Derivatives and Hedging"*. The Black-Scholes option pricing valuation method ("BSM option pricing model") is used to determine fair value of these warrants consistent with ASC 718, "*Share Based Payment"*. 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 from non-employees in exchange for equity instruments based on the fair value of the equity instruments exchanged, in accordance with ASC 505-50, "*Equity Based payments to Non-employees*".

M. ORIGINAL ISSUE DEBT DISCOUNT

The original issue discount (OID) related to notes payable is amortized by the effective interest method over the repayment period of the notes. The unamortized OID is represented as a reduction of the amount of the notes payable.

N. 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:

	Years
Display equipment for trade shows	3
Leasehold improvements and furniture and fixtures	10 - 15
Shop equipment	7
Computers	3

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

O. 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.

P. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.* This provides guidance for companies to evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The adoption has no impact on the financial reporting of the Company.

In April 2015, the FASB issued ASU No. 2015-03, "*Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*", or ASU 2015-03. ASU 2015-03 amends current presentation guidance by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. We adopted the provisions of ASU 2015-03 effective January 1, 2016. The adoption of ASU 2015-03 did not have a material impact our consolidated financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU 2016-02, *Leases.* This was provide guidance to increase transparency and comparability among companies by requiring most leases be included on the balance sheet and by expanding disclosure requirements.. We are still in the process of evaluating the effect of adoption on our financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting.* This addresses the accounting for share-based payment transactions and includes the recognition of the income tax effects of awards that vest or settle as income tax expense and clarification of the presentation of certain components of share-based awards in the statement of cash flows. We are still in the process of evaluating the effect of adoption on our financial statements and the effective date of application is 2018.

ASU No. 2015-17, "*Balance Sheet Classification of Deferred Assets*", was issued by the FASB in November 2015, This required management to provide a classification of all deferred taxes as noncurrent assets or noncurrent liabilities. This ASU is effective for annual periods beginning after December 15, 2016. The Company does not anticipate this ASU will have a material impact to the Company's financial position, results of operations or cash flows.

Q. CONCENTRATION OF RISK

The Company does not have any off-balance sheet concentrations of credit risk. The Company expects cash and accounts receivable to be the two assets most likely to subject the Company to concentrations of credit risk. The Company's policy is to maintain its cash with high credit quality financial institutions to limit its risk of loss exposure.

As of June 30, 2016, the Company maintained its cash in one quality financial institution. The Company has not experienced any losses in its bank accounts through June 30, 2016. The Company purchases raw material and components from multiple sources, none of which may be considered a principal or material supplier. If necessary, the Company could replace these suppliers with minimal effect on its business operations.

R. DERIVATIVE FINANCIAL INSTRUMENTS

Accounting and reporting standards for derivative instruments and for hedging activities were codified by ASC Topic 815, *Derivatives and Hedging* ("ASC Topic 815"). It requires that all derivatives be recognized in the balance sheet and measured at fair value. Gains or losses resulting from changes in the fair value of derivatives are recognized in earnings or recorded in other comprehensive income (loss) depending on the purpose of the derivatives and whether they qualify and have been designated for hedge accounting treatment. The Company has derivative liabilities pursuant to convertible debt and common stock warrants, and has recognized net expenses on the condensed consolidated statements of operations. The Company does not have any derivative instruments for which it has applied hedge accounting treatment.

NOTE 2 - GOING CONCERN

As shown in the accompanying consolidated financial statements, the Company incurred substantial operating and other losses and expenses of approximately $.5 million for the six months ended June 30, 2016 and $1.5 million for the year ended December 31, 2015, The cumulative deficit since inception is approximately $59.3 million, which is comprised of $27.0 million attributable to actual operating losses (which were paid in cash, stock for services and other equity instruments) and net other expenses, and $32.3 million in non-cash derivative liability accounting which was a result of the conversion of the Company's Series A Convertible Preferred Stock in 2011, the retirement of a common stock purchase warrant in 2012, and the change in fair value of derivatives associated with notes payable obtained during the years ended December 31, 2013 and 2014. The Company has a working capital deficit at June 30, 2016 of approximately $2.7 million. 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 include 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 consolidated 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 debt, advance contract payments (deferred revenue), and advances from and deferred payments to related parties.

NOTE 3 – INVENTORY, NET

Inventory principally consists of raw material engine parts, work in process engines, labor and overhead, net of realization, valuation and obsolescence reserves. In the aggregate it is stated at the lower of cost or market.

	June 30, 2016	December 31, 2015
Raw material	$323,224	$323,508
Work in process	26,289	0
Total	$349,513	$323,508

We provide estimated provisions for the realization, valuation and obsolescence of our inventories, including adjustments to market, based on various factors, including the age of such inventory and our management's assessment of the need for such provisions. We look at historical inventory aging and usage reports and margin analyses in determining our provision

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following:

	June 30, 2016	December 31, 2015
Display equipment for trade shows	$6,270	$6,270
Leasehold improvements and furniture and fixtures	93,922	93,922
Equipment and computers	202,578	204,377
Total	302,770	304,569
Accumulated depreciation	(193,577)	(178,049)
Net property and equipment	$109,193	$126,520

Depreciation expense for the six months ended June 30, 2016 and 2015 was $17,328 and $18,494, respectively.

NOTE 5 – PATENTS, TRADEMARKS AND COPYRIGHTS

Patents, trademarks and copyrights consist of legal fees paid to file and perfect these claims. The net balances as of December 31, 2015 and December 31, 2014 were $313,805 and $353,282, respectively. For the six months ended June 30, 2016 and the year ended December 31, 2015, the Company capitalized $0 and $0, respectively, of expenditures related to these assets. As of June 30, 2016, the Company had 33 patents issued on its technology both in the U.S. and internationally, and six trademarks in the U.S.

Patents, trademarks and copyrights are amortized over the life of the intellectual property which is 15 years. Amortization expenses for the six months ended June 30, 2016 and 2015 were $17,544 and $19,537, respectively.

NOTE 6 – NOTES AND OTHER LOANS PAYABLE

A. NON-RELATED PARTIES

A summary of non-related party notes and other loans payable is as follows:

	June 30, 2016	December 31, 2015
12% convertible notes payable, maturing at various dates from November 2013 through April 2016 (A)	$42,951	$34,558
10% convertible note payable, monthly payments commencing in December 2013 through July 2014 (B)	19,963	19,963
10% convertible notes payable maturing at various dates from May 2015 through February 2016 (C)	76,000	72,793
, 10% convertible notes payable, maturing at various dates from December 2015 through January 2016 (D)	29,303	29,223
10% convertible notes payable maturing at various dates from February 2015 through August 2015 (F)	116,200	116,200
12% convertible notes payable, maturing at various dates from April 2015 through May 2015 (G)	85,000	85,000
10% note payable, maturing Feb 3, 2017	50,000	50,000
Various notes payable, maturing 2016	5,500	
Total non related party notes –net of discount	424,917	407,737
Less-Current Portion	424,917	357,737
Total non-current non related party	$-	$50,000

(A) Notes issued net of 10% original discount (fully amortized) This note is in default.

(B) Note issued net of original discount (fully amortized). Effective May 8, 2015, the Company is subject to a default judgment of approximately $175,000, plus subsequent penalty interest for non-payment of convertible debt and interest. The Company is negotiating a reduced settlement. Unpaid interest, default penalties and default interest is included in accounts payable and accrued liabilities.

(C) Notes issued net of discount from derivative liabilities (fully amortized). At June 30, 2016, the Company held approximately 97 million shares in reserve to cover the potential conversion of this note into common stock pursuant to debt covenants. This note is in default.

(D) Notes issued net of discount (fully amortized) This note is in default.

(F) Notes issued net of discount from derivative liabilities (fully amortized). At June 30, 2016, the Company held 233.3 million shares in reserve to cover the potential conversion of this note into common stock pursuant to debt covenants. This note is in default.

(G) Notes issued net of discount from derivative liabilities (fully amortized at March 31, 2015). The Company is subject to litigation judgment of approximately $150,000, plus subsequent penalty interest for non–payment. Company is seeking to arrange a settlement. Unpaid interest, default penalties and default interest is included in accounts payable and accrued liabilities.

12

B. RELATED PARTIES

A summary of related party notes and other loans payable is as follows:

	June 30, 2016	December 31, 2015
6% demand loans per Operations Agreement with Schoell Marine Inc., a company owned by Cyclone's Chairman and controlling shareholder (A)	$162,751	$117,734
6% non-collateralized loans from officer and shareholder, payable on demand. The original principal balances were $157,101.	113,424	103,328
12% non-collateralized loans from officer and shareholder, payable on demand	20,178	20,178
Accrued Interest	88,951	80,094
Total current related party notes, inclusive of accrued interest	$385,304	$321,334

(A) This note arose from services and salaries incurred by Schoell Marine on behalf of the Company. The Schoell Marine note bears an interest rate of 6% and repayments occur as cash flow of the Company permits. For the six months ended June 30, 2016 and for the year ended December 31, 2015 $5,665 and $0 of principal was paid on the note balance, respectively.

In June 2015 Schoell Marine forgave $710,272 of principle and accrued interest on the note, which was recorded in additional paid in capital.

NOTE 7 – RELATED PARTY TRANSACTIONS- DEFERRED COMPENSATION

Included in accounts payable and accrued expenses - related parties as of June 30, 2016 and December 31, 2015 are $ 275,000 and $137,500, respectively, of accrued and deferred officers' salaries compensation which may be paid as funds are available. These are non-interest bearing and due on demand.

In June 2015, the principle officers of the company forgave $612,500 of deferred compensation, which was recorded in additional paid in capital.

NOTE 8 – PREFERRED STOCK

The Series B Preferred Stock is majority voting stock and is held by the two co-founders of the Company. Ownership of the Series B Preferred Stock shares assures the holders thereof a 51% voting control over the common stock of the Company. The 1,000 Series B Preferred Stock shares are convertible on a one-for-one basis with the common stock in the instance the Company is merged, sold or otherwise dissolved.

NOTE 9 – STOCK TRANSACTIONS

During the six months ended June 30, 2016, the Company:

a- Issued 45,730,741 shares of restricted common stock valued at $82,315 for payment of liability

b- Amortized (based on vesting) $987 of common stock options for employee services.

c- Issued 3,000,000 shares of common stock valued at $6,000 for services.

NOTE 10 – STOCK OPTIONS AND WARRANTS

A. COMMON STOCK OPTIONS

Per the employment contracts with certain officers, for the six months ended June 30, 2016, the company issued 900,000 common stock options, valued at $1,710 (pursuant to the Black Scholes valuation model) that are exercisable into shares of common stock at an average exercise price of $.0009 and with a maturity life of 10 years. For the six months year ended June 31, 2016, the amortization of stock options was $987 and the unamortized balance was $1,314.

13

A summary of the common stock options for the period from December 31, 2015 through June 30, 2016 follows

	Number Outstanding	**Weighted Avg. Exercise Price**	**Weighted Avg. Remaining Contractual Life (Years)**
Balance, December 31, 2015	12,380,000	$ 0.123	6.0
Options issued	900,000	0.0019	9.9
Options exercised	-	-	
Expired	(150,000)	(.098)	-
Balance, June 30, 2016	13,130,000	$ 0.10	5.5

The vested and exercisable options at period end follows:

	Exercisable/ Vested Options Outstanding	**Weighted Avg. Exercise Price**	**Weighted Avg. Remaining Contractual Life (Years)**
Balance June 30, 2016	11,780,000	$ .114	5.0
Additional vesting by Sept. 30, 2016	450,000	.0009	8.25

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

	Six Months Ended

		June 30, 2016	
Risk free interest rate		.71 % -.86	%
Expected volatility		136% - 137	%
Expected term		3	
Expected dividend yield		0	%
Average value per options and warrants	$	.0019 -$ .0019	

Expected volatility is based on historical volatility of the Company's common stock price. Short Term U.S. Treasury rates were utilized at the risk free interest rate. The expected term of the options and warrants was calculated using the alternative simplified method newly codified as ASC 718 "*Accounting for Stock Based Compensation,*" 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 issuances.

B. COMMON STOCK WARRANTS

A summary of outstanding vested warrant activity for the period from December 31, 2015 to June 30, 2016 follows:

Common Stock Warrants	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Balance Dec 31, 2015	1,125,000	$ 0042	2.05
Warrants exercised-cashless	-	-	-
Warrants issued	-	-	-
Warrants expired	-	-	-
Balance, June 30, 2016	1,125,000	$ 0042	.66

14

NOTE 11 – INCOME TAXES

A reconciliation of the differences between the effective income tax rates and the statutory federal tax rates for the six months ended June 30, 2016 and 2015 are as follows:

	Six Months ended March 31, 2016		Amount	**Six Months ended March 31 2015**		Amount
Tax benefit at U.S. statutory rate	34	%	$133,086	34	%	$203,128
State taxes, net of federal benefit	4		15,657	4		23,897
Change in valuation allowance	(38	)	$(148,743)	(38	)%	$(227,025)
			-			-

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at June 30, 2016 and December 31, 2015 consisted of the following:

Deferred Tax Assets	June 30, 2016	December 31, 2015
Net Operating Loss Carry-forward	$10,125,485	$9,924,492
Deferred Tax Liabilities	(848,056)	(795,805)
Net Deferred Tax Assets	9,277,429	9,128,687
Valuation Allowance	(9,277,429)	(9,128,687)
Total Net Deferred Tax Assets	$-	$-

As of June 30, 2016, the Company had a net operating loss carry forward for income tax reporting purposes of approximately $21.8 million that may be offset against future taxable income through 2030. 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 carry forwards will expire unused. Accordingly, the potential tax benefits of the loss carry forwards are offset by a valuation allowance of the same amount.

NOTE 12 –LEASE OBLIGATIONS

A. CAPITALIZED LEASE OBLIGATIONS

Total capitalized lease payments made for the six months ended June 30, 2016 were $7,754. The balance of capitalized lease obligations payable at June 30, 2016 and December 31, 2015 were $42,135 and $49,889 respectively. Future lease payments are:

2016	$5,196
2017	14,382
2018	11,984
2019	8,551
2020	2,022
	$42,135

15

B. 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 original lease provides for the Company to pay an annual rent of $60,000. The original lease period ends December 2016 with a 1 year renewal at the company's option and a 2% rate increase. Occupancy costs for the six months ended June 30, 2016 and 2015 were $32,300 and $30,000 respectively.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Company has employment agreements with Harry Schoell, Chairman and CTO (previously, CEO), at $150,000 per year and Frankie Fruge, President, at $120,000 per year; (collectively, the "Executives"). These agreements provide for a term of three (3) years from their Effective Date (July 2007 with automatically renewing successive one year periods starting on the end of the second anniversary of the Effective Date. If the 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/she not terminated, during the 12 months following his or her termination.

NOTE 14 –CONSOLIDATED SUBSIDIARY

In 2012, the Company established a 100% owned subsidiary (renamed) Cyclone Performance LLC. The purpose of Cyclone Performance is to build, test and run a vehicle utilizing the Company's engine. In the last quarter of 2012, the Company sold a 5% equity investment to an unrelated investor for $30,000. Subsequent to December 31, 2012, this 5% equity investment was acquired by a corporate officer of the Company. Losses of the subsidiary are currently fully borne by the Company, as there is no guarantee of future profits or positive cash flow of the subsidiary. As of June 30, 2016, the cumulative unallocated losses to the non-controlling interests of this subsidiary of $961 are to be recovered by the parent from future subsidiary profits if they materialize.

NOTE 15 – RECEIVABLES, DEFERRED REVENUE AND BACKLOG

As of June 30, 2016, total backlog for prototype engines to be delivered was $400,000 from the Combilift agreement, of which $100,000 has been paid and has been recorded as deferred revenue. Another customer advanced $25,000 as a deposit towards progress payments on a $80,000 contract for engines to be delivered in 2017 and other customers advanced $ 15,700 on engine contracts.

NOTE 16 – DERIVATIVE FINANCIAL INSTRUMENTS

Pursuant to additional financing, in the year ended December 31, 2015 and for the six months ended June 30, 2016 the Company entered into no convertible note agreements. Prior convertible notes had conversion prices into common stock that ranged from a discount of 30% to 45% of the lowest closing prices in the 10 to 20 trading days prior to the conversion. Under provisions of ASC Topic 815-40, this conversion feature triggered derivative accounting treatment because the convertible note was convertible into an indeterminable number of shares of common stock. The fair value of the embedded conversion option was required to be presented as a derivative liability and adjusted to fair value at each reporting date, with changes in fair value reported in the condensed consolidated statements of operation.

In the six months ended June 30, 2016, the Company recorded a $11,680 non-cash charge to interest expense (reflective of debt discount amortization), and $2,777 of derivative gains related to adjusting the derivative liability to fair value. At June 30, 2016, the derivative related fair value of debt was $380,705.

The Company calculates the estimated fair values of the liabilities for derivative instruments at each quarter-end using the BSM option pricing model and Stochastic Process Forecasting models (Monte Carlo simulations). Volatility, expected term and risk free interest rates used to estimate the fair value of derivative liabilities are indicated in the table below. The volatility was based on historical volatility, the expected term is equal to the remaining term of the debt and the risk free rate is based upon rates for treasury securities with the same term.

	Six Months Ended June 30, 2016	**Year Ended December. 31, 2015**
Volatility	84% - 276 %	103% - 343 %
Risk Free Rate	.02% - .58 %	.01% - .28 %
Expected Term (years)	0 – 2.4	0 – 1.05
Dividend Rate	0 %	0 %

NOTE 17 – LITIGATION

Effective May 8, 2015, the Company is subject to a default judgment of approximately $175,000 plus interest for non-payment of convertible debt and interest. The Company is negotiating a reduced settlement.

In August 2015, the Company is subject to litigation of approximately $150,000 plus interest for non- payment of a liability. The Company is seeking to arrange a settlement.

NOTE 18 – SUBSEQUENT EVENTS

In the last half of 2016, the Company engaged in the following transactions:

a- Placed purchase orders for the pre production manufacturing of 10 Mark 1 engines to test application and integration with customers' systems

b- Effective September 1, 2016, the company raised the authorized common stock to 4,000,000,000 shares.

c- Issued 80,000,000 shares of restricted common stock value at $216,000 in settlement of a liability.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

This report contains forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including, among other things:

- the ability to successfully complete development and commercialization of our technology;
- changes in existing and potential relationships with collaborative partners;
- the ability to retain certain members of management;
- our expectations regarding general and administrative expenses;
- our expectations regarding cash availability and balances, capital requirements, anticipated revenue and expenses, including infrastructure and patent expenditures;
- other factors detailed from time to time in filings with the SEC.

In addition, in this registration, we use words such as “anticipate,” “believe,” “plan,” “expect,” “future,” “intend,” and similar expressions to identify forward-looking statements.

We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this registration. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this registration may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

Overview

The Company is engaged in the research and development of all-fuel, eco-friendly engine and parts technologies for integration and use within customers systems. The company anticipates that it will concentrate on the following engine models (power ratings) : Mark 1 maximum rating (10 KW- 15 HP), Mark 3 maximum rating (20 KW-28 HP) and the Mark 5 (45 KW- 100 HP). Additionally, revenue is anticipated via sales of component parts and licensing fees.

Corporate Structural Actions. The Company’s focus is on revenue and funding derived from sales of engines and parts for integration into customers applications and systems. With delivery of our engines and material component parts, we are transitioning from the convertible notes used to finance the Company over the last 18 months.

Results of Operations

(unaudited)

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Revenue. The Company had $0 revenue in the quarters ended June 30, 2016 and June 30, 2015

Gross Margin. The Company had $0 gross margin in the quarters ended June 30, 2016 and June 30, 2015.

Operating Expenses. Operating expenses incurred for the quarter ended June 30, 2016 were $234,595 as compared to $210,852 for the same period in the previous year, an increase of $23,743 (11%). R&D expenses for the three months ending June 30 2016 were $39,157 or $42,080 or 52% lower versus 2015 on reduced staff and expenses. General and administrative expenses increased by $65,453 (51%) primarily from higher consulting expenses and increased patent maintenance fees (renewal timing), offset by lower staff and related expenses.

Operating Loss. The operating losses for the quarters ended June 30, 2016 and 2015 were $234,595 and $210,852, respectively, an increased loss of $23,743 or 11%, due to the factors outlined above.

Other Income (Expense) The net other loss for the quarter ended June 30, 2016 was ($42,627) versus a net loss of ($79,788) for the comparable period of last year, a favorable variance of $37,161 or 47% . The 2016 net other expense included a $44,000 gain on the sale of the Whe Gen stock, a $57,383 loss on debt paid with stock and interest expense of $ 29,614

Net other expense for the quarter ended June 30, 2015 was $79,788, primarily due to interest expense of $86,631.

Net Loss and Loss per Share. The net loss for the quarter ended June 30, 2016 was $277,222, compared to a net loss of $290,640 for the same period in the previous year, a favorable variance of $13,418 or 4.6%. The net income per weighted average share was $0.00 for the quarter ended June 30, 2016 and $0.00 for the prior year comparable quarter.

Results of Operations

(unaudited)

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Revenue. The Company had $0 revenue in the six months ended June 30, 2016 and June 30, 2015.

Gross Margin. The Company had $0 gross margin in the six months ended June 30, 2016 and June 30, 2015.

Operating Expenses. Operating expenses incurred for the six months ended June 30, 2016 were $465,198 as compared to $589,612 for the same period in the previous year, a decrease of $124,414 or 21%. The decrease was due to a reduction in research and development staff and expenses of $114,314 or 61%, Also, general and administrative expenses decreased by $15,507 (4%) primarily from a reduction professional and consulting expenses partially offset by reduced stock issued for services.

Operating Loss. The operating losses for the six months ended June 30, 2016 and 2015 were $465,198 and $589,612, respectively, a decrease of $124,414 or 21%, due to the factors outlined above.

Other Income (Expense) Net other expense for the six months ended June 30, 2016 was ($72,634) versus ($288,665) for the comparable period of the prior year, a favorable variance of $ 216,031 or 75%. The 2016 net expense included interest expenses of $62,442, and a $57,383 loss on a debt conversion paid with restricted common stock, partially offset by a $44,000 gain on the sale of the Whe Gen investment.

Net other expense for the six months ended June 30, 2015 was $(288,665) included interest expenses of $ 227,854, and a $50,000 loss on a debt conversion paid with restricted common stock.

Net Loss and Loss per Share. The net loss for the six months ended June 30, 2016 was a loss of $537,832, compared to a net loss of $878,277 for the same period in the previous year a favorable variance of $340,445 or 39%. The net income per weighted average share was $0.00 for the six months ended June 30, 2016 and 2015, respectively.

Liquidity and Capital Resources

At June 30, 2016, the net working capital deficiency was $2,744,396 as compared to a deficiency of $2,272,018 at December 31, 2015, an increased deficiency of $472,378 or 21%.

For the six months ended June 30, 2016, cash increased by $14,861. Funds were provided by the $231,470 increase in notes, accounts payable and accruals to related parties, higher accounts payable and accrued expenses of $203,521. Funds were used by the $517,832 loss and a $ 46,005 increase in inventory. Non-cash charges for the six months were from: a $ 57,383 loss on liabilities and debt paid with common stock and $6,000 of expense paid with common stock.

The six months ended June 30, 2015, cash increased by $0. Funds were used by the net loss of ($878,277), and $46,417 higher inventory. Funds were provided by $50,000 of new debt financing, a $277,760 increase in related party debt and accrued expenses, an a $ 226,286 increase in accounts payable and accrued expenses. Non-cash charges for the six months were from the issuance of common stock and options for services of $62,953, a $50,000 loss on liabilities and debt paid with common stock, and $132,531 of amortization of derivative debt discount.

Cash Flow Management Plan

As shown in the accompanying financial statements, the Company incurred substantial operating losses for the six months ended June 30, 2016 of approximately $.5 million, and a working capital deficit at June 30, 2016 of approximately $2.7 million. 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.

In mid 2017, the company anticipates $300,000 in revenue from the completion of the Combilift Mark 5 contract. The FSDS contract is projected to be complete in first half of 2017 with additional payment due of $75,000. IBES is negotiating to purchase 5 more beta site projects with an anticipated additional revenue from R&D of $80,000. We projects delivering manufactured products thru our integrators and manufacturers by the fourth quarter of 2017. The Company has signed three contracts for deliverables and anticipates purchase orders for manufactured engines by summer of 2017.

Additionally, we have potential contracts in various stages of negotiation that could generate another $2 million in revenue over the following 12 to 24 months. We cannot guarantee that we will be successful in closing these new contracts, but we are cautiously optimistic that these or other opportunities will materialize in the coming quarters.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, that would have been established for the purpose of facilitating off-balance sheet arrangements (as that term is defined in Item 303(a)(4)(ii) of Regulation S-K) or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required for smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We carried out an evaluation as required by paragraph (b) of Rule 13a-15 and 15d-15 of the Exchange Act, under the supervision and with the participation of our management, including our President (Chief Executive Officer) and Chief Financial Officer, of the effectiveness of our financial disclosures, controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of June 30, 2016.

A material weakness can be defined as an insufficiency of internal controls that may result in a more than remote likelihood that a material misstatement will not be prevented, detected or corrected in a company's financial statements.

Based upon that evaluation, our President (Chief Executive Officer) and Chief Financial Officer concluded that our disclosure controls and procedures were not effective, based on the following deficiencies:

Weaknesses in Accounting and Finance Personnel: We have a small accounting staff and we do not have the robust employee resources and expertise needed to meet complex and intricate GAAP and SEC reporting requirements of a U.S. public company. Additionally, numerous adjustments and proposed adjustments have been noted by our auditors. This is deemed by management to be a material weakness in preparing financial statements.

We have written accounting policies and control procedures, but we do not have sufficient staff to implement the related controls. Management had determined that this lack of the implantation of segregation of duties, as required by our written procedures, represents a material weakness in our internal controls.

Internal control has as its core a basic tenant of segregation of duties. Due to our limited size and economic constraints, the Company is not able to segregate for control purposes various asset control and recording duties and functions to different employees. This lack of segregation of duties had been evaluated by management, and has been deemed to be a material control deficiency.

The Company has determined that the above internal control weaknesses and deficiencies could result in a reasonable possibility for interim financial statements that a material misstatements will not be prevented or detected on a timely basis by the Company's internal controls.

Management is currently evaluating what steps can be taken in order to address these material weaknesses. As a growing small business, the Company continuously devotes resources to the improvement of our internal control over financial reporting. Due to budget constraints, the staffing size, proficiency and specific expertise in the accounting department is below requirements for the operation. The Company is anticipating correcting deficiencies as funds become available.

Changes in Internal Control Over Financial Reporting and Procedures.

There were no changes in internal control over financial reporting and procedures from the previous quarter.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Effective May 8, 2015, the Company is subject to a default judgment of approximately $175,000 and interest for non-payment of convertible debt and interest. The Company is negotiating a reduced settlement.

In August 2015, the Company is subject to litigation of approximately $150,000 and interest for non payment of a liability. The Company is seeking to arrange a settlement.

ITEM 1A. RISK FACTORS

Not required.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In the second quarter of 2016 the Company issued 45,730,741 shares of restricted common stock valued at $82,315 for payment of liability.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

23

ITEM 6. EXHIBITS

Exhibit Number	Description
31.1	Certification of the President (Principal Executive Officer), as required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the President (Chief Executive Officer), as required by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation
101.DEF*	XBRL Taxonomy Extension Definition
101.LAB*	XBRL Taxonomy Extension Labels
101.PRE*	XBRL Taxonomy Extension Presentation

The certification attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Cyclone Power Technologies, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

* Information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

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

Cyclone Power Technologies, Inc.

March 20, 2017 */s/ Frankie Fruge*
Frankie Fruge
President
(Principal executive officer)

March 20, 2017 */s/ Bruce Schames.*
Bruce Schames
Chief Financial Officer
(Principal financial and accounting officer)

25