



CYCLONE POWER TECHNOLOGIES, INC.

Quarterly Report for the Period Ended September 30, 2008

Item I Exact name of the issuer and address of its principal executive offices.

Cyclone Power Technologies, Inc.

Formerly: Coastal Technologies, Inc. until 7-07

Formerly: SmartData, Inc. until 11-05

Formerly: Netcoast Communications, Inc. until 10-04

601 NE 26th Court
Pompano Beach, FL 33064
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Investor Relations:
Frankie Fruge
frankie@cyclonepower.com

Item 2 Shares Outstanding.

COMMON STOCK

	Q2 2008	FYE 2007 (1)	FYE 2006 (2)
# of Shares Authorized	1,000,000,000	1,000,000,000	1,000,000,000
# of Shares Outstanding	78,068,047	61,648,436	837,352,456
Freely Tradable	29,653,471	27,999,841	155,460,000
# of Beneficial Shareholders	2,031	1,226	(3)
Total # of Shareholders of Record	2,436	1,592	311 (3)

- (1) Figures for FYE 2007 account for a 10,000:1 reverse stock split effective as of June 30, 2007.
- (2) Figures for FYE 2006 include a 19:1 forward stock split effective as of October 24, 2006.
- (3) The Company did not have a NOBO list as of FYE 2006, and as a result, cannot provide the exact number of Beneficial Shareholders as of those time periods.

SERIES A CONVERTIBLE PREFERRED STOCK

	Q2 2008	FYE 2007	FYE 2006
# of Shares Authorized	1,000,000 (1)	1,000,000(1)	0
# of Shares Outstanding	500,000	500,000	0
Freely Tradable	0	0	0
# of Beneficial Shareholders	22	22	0
Total # of Shareholders of Record	22	22	0

- (1) Includes all preferred stock authorized, regardless of series or class.

SERIES B PREFERRED STOCK

	Q2 2008	FYE 2007	FYE 2006
# of Shares Authorized	1,000,000 (1)	1,000,000(1)	0
# of Shares Outstanding	1,000	1,000	0
Freely Tradable	0	0	0
# of Beneficial Shareholders	2	2	0
Total # of Shareholders of Record	2	2	0

- (1) Includes all preferred stock authorized, regardless of series or class.

Item 3 Interim Financial Statements.

Interim Financial Statements for the period ended September 30, 2008 have been attached to the end of this Quarterly Report and are ordered as follows:

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1) Balance Sheet	F-2
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4) Statement of in Stockholder's Equity	F-5
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Item 4 Management's Discussion and Analysis or Plan or Operation

The Company has not had material or consistent revenue from operations 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. Raise through capital infusions, either by means of equity or debt offerings, a minimum of \$1 million and up to \$ 5 million; or
2. Secure license agreements that provide up-front license fees, development/design fees or guaranteed royalties, in a minimum amount of \$1 million and up to \$5 million.

While the Company is actively engaged in both capital raising and licensing activities, management can make no assurances that such efforts will result in the needed funding for the Company. If such funds cannot be raised or otherwise generated, the Company will be forced to reduce staff, minimize its research and development activities, or shut-down operations. Currently the Company has cash reserves and cash commitments to sustain operations through Q4 2008 and possibly into Q1 2009, however, such cash on hand is not currently sufficient for the Company to expand operations at the pace that management believes to be optimal for its business prospects.

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 for 2007 were \$814,685 and for 2006 were \$741,206, and management expects

such expenditures to exceed these figures for 2008, especially if proper funding can be achieved.

The Company does not immediately anticipate a purchase or sale of plant facilities or significant equipment; however, should funding be secured, some proceeds will be used to purchase capital equipment used for development and testing of its technology. Additionally, should adequate funding be secured, the Company expects to increase the number of skilled and unskilled employees on payroll, including the recruitment of high level executive management and additional engineers and mechanical staff. Such new hires will considerably increase the Company's monthly operational expenses.

Item 5 Legal Proceedings.

The Company is not engaged in any legal proceedings, or threatened proceedings, that have not been previously disclosed.

Item 6 Defaults Upon Senior Securities.

The Company has no defaults upon senior securities.

Item 7 Other Information

(A) For the fiscal quarter ended September 30, 2008, the Company issued shares of its common stock in private offerings as follows:

Date	# of Shares	Amount Paid	Nature of Offering	Trading Status/Restrictions
9/30/08	215,000	\$19,350	Services Rendered	Restricted as per Rule 144
9/30/08	1,514,625	\$136,316	Liability Conversion (1)	Restricted as per Rule 144
9/15/08	850,000	\$169,875	Regulation S	Restricted as per Reg S/144
9/03/08	125,000	\$20,000	Services Rendered	Restricted as per Rule 144
8/29/08	154,320	\$25,000	Regulation D	Restricted as per Rule 144
8/14/08	150,000	\$22,558	Regulation S	Restricted as per Reg S/144
8/14/08	1,424,242	\$199,394	Liability Conversion (2)	Restricted as per Rule 144
8/14/08	155,000	\$21,700	Services Rendered	Restricted as per Rule 144
7/15/08	3,000,000	\$420,000	Services Rendered	Restricted as per Rule 144

(1) Conversion of deferred salary to officers/employees of the Company at \$.09/share.

(2) Conversion of deferred salary to officers/employees of the Company at \$.14/share.

Item 8 Exhibits.

None.

Item 9 Issuer's Certifications

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

1. I have reviewed the Quarterly Report for the period ended September 30, 2008, of Cyclone Power Technologies, Inc.
2. Based upon my knowledge, this Quarterly 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 Quarterly Report; and
3. Based upon my knowledge, the financial statements and other financial information included or incorporated by reference in this Quarterly 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 Quarterly Report.

November 21, 2008



Harry Schoell
CEO & Chairman

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

1. I have reviewed the Quarterly Report for the period ended September 30, 2008, of Cyclone Power Technologies, Inc.
2. Based upon my knowledge, this Quarterly 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 Quarterly Report; and

3. Based upon my knowledge, the financial statements and other financial information included or incorporated by reference in this Quarterly 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 Quarterly Report.

November 21, 2008

A handwritten signature in cursive script, appearing to read "Frankie Fruge".

Frankie Fruge
COO & Controller

CYCLONE POWER TECHNOLOGIES INC.

**Financial Statements
Period Ended September 30, 2008**

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Cyclone Power Technologies Inc.
Balance Sheets
September 30, 2008 and December 31, 2007
(unaudited)

	September 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS		
Cash	\$ 40,288	\$ 25,863
Accounts receivable	102,244	165,000
Inventory	18,129	0
Total current assets	160,661	190,863
PROPERTY AND EQUIPMENT		
Furniture, fixtures, and equipment	46,828	18,230
Less: Accumulated depreciation	(15,408)	(3,453)
Total property and equipment	31,420	14,777
OTHER ASSETS		
Patents, Trademarks and Copyrights-(net of accumulated amortization of \$ 17,704 and \$ 7,740 at June 30, 2008 and December 31, 2007, respectively)	278,009	224,802
Total other assets	278,009	224,802
Total Assets	\$ 470,090	\$ 430,442
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	375,853	221,454
Notes and loans payable	82,381	69,080
Deferred Revenue	35,999	-
License Deposit	-	-
Accounts and loans payable-related party	503,486	542,796
Total current liabilities	997,719	833,330
Total liabilities	997,719	833,330
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred Stock A, \$.0001 par value, 500,000 shares authorized, 500,000 shares issued and outstanding	50	50
Preferred Stock B, \$.0001 par value, 500,000 shares authorized, 1,000 shares issued and outstanding	-	-
Common stock, \$.0001 par value, 1,000,000,000 shares authorized; 78,068,027 and 61,648,436 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	7,807	6,165
Additional paid-in capital	4,164,789	2,616,230
Accumulated (deficit)	(4,700,275)	(3,025,333)
Total stockholders' equity (deficit)	(527,629)	(402,888)
Total Liabilities and Stockholders' Equity (Deficit)	\$ 470,090	\$ 430,442

The accompanying notes are an integral part of the financial statements

Cyclone Power Technologies Inc.
Statement of Operations
For the three and nine months ended September 30 2008
(unaudited)

	<u>Three Months Ending Sept. 30, 2008</u>	<u>Nine Months Ending Sept. 30, 2008</u>
REVENUES		
Licensing Fees & Development	\$ -	\$ 1,000
Total Revenues	<u>-</u>	<u>1,000</u>
OPERATING EXPENSES		
Advertising and Promotion	39,579	82,303
General and Administrative	929,371	1,381,439
Research and Development	94,554	181,401
Total operating expenses	<u>1,063,504</u>	<u>1,645,143</u>
Operating income (loss)	<u>(1,063,504)</u>	<u>(1,644,143)</u>
OTHER INCOME (EXPENSE)		
Interest expense	<u>(12,696)</u>	<u>(30,799)</u>
Total other income (expense)	<u>(12,696)</u>	<u>(30,799)</u>
Loss before provision for income taxes	(1,076,200)	(1,674,942)
Provision for Income taxes	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ (1,076,200)</u>	<u>\$ (1,674,942)</u>
Net income (loss) per common share, basic	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Weighted average number of common shares outstanding	<u>74,711,871</u>	<u>67,894,793</u>

The accompanying notes are an integral part of the financial statements

Cyclone Power Technologies Inc.
Statement of Stockholders' Equity (Deficit)
September 30, 2008
(unaudited)

	<u>Preferred Stock A</u>		<u>Preferred Stock B</u>		<u>Common Stock</u>		<u>Additional Paid In Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders Equity (Deficit)</u>
	<u>Shares</u>	<u>Value</u>	<u>Shares</u>	<u>Value</u>	<u>Shares</u>	<u>Value</u>			
Balance at July 2, 2007-Pre Merger		\$ -		\$ -	249,861	\$ 25	\$ 1,140,745	\$ (1,636,533)	\$ (495,763)
Issuance of restricted shares to partners of Cyclone Technologies LLLP					33,000,000	3,300	1,165,507	-	1,168,807
Issuance of shares to holders of convertible note (subject to leak out agreement)					21,750,000	2,175	32,760	-	34,935
Issuance of Preferred A shares to partners of Cyclone Technologies LLLP	500,000	50	-	-	-	-	(50)	-	0
Issuance of Preferred B shares to senior management of Cyclone Technologies LLLP	-	-	1,000	-	-	-			0
Sale of restricted shares					100,000	10	199,990		200,000
Issuance of restricted shares for conversion of convertible notes					6,000,000	600	17,400		18,000
Sale of restricted shares under Regulation S to foreign investors					201,908	20	52,980		53,000
Issuance of restricted shares for investment banking services					46,667	5	928		933
Issuance of restricted shares for legal services					300,000	30	5,970		6,000
Net (loss) Dec.31 2007								(1,388,800)	(1,388,800)
Balance, December 31, 2007	500,000	\$ 50	1,000	\$ -	61,648,436	\$ 6,165	\$ 2,616,230	\$ (3,025,333)	\$ (402,888)
Issuance of restricted shares for services					5,468,685	547	724,958		725,505
Sale of common stock					9,244,752	924	655,395		656,319
Conversion of debt & liabilities to common stock					1,706,174	171	168,206		168,377
Net (loss) nine months Sept. 30, 2008								(1,674,942)	(1,674,942)
Balance, Sept. 30, 2008	500,000	\$ 50	1,000	\$ -	78,068,047	\$ 7,807	\$ 4,164,789	\$ (4,700,275)	\$ (527,629)

The accompanying notes are an integral part of the financial statements

Cyclone Power Technologies Inc.
Statement of Cash Flows
For the nine months ended September 30, 2008
(unaudited)

	<u>Nine Months Ending Sept. 30, 2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income (loss)	\$ (1,674,942)
Adjustments to reconcile net (loss) to net cash provided by operating activities:	
Depreciation & Amortization	21,619
Issuance of restricted common stock for services	725,505
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	62,756
(Increase) decrease in inventory	(18,128)
Increase (decrease) in license deposits	-
Increase (decrease) in deferred revenue	35,999
Increase (decrease) in accounts payable and accrued expenses	<u>323,075</u>
Net cash provided (used) by operating activities	<u>(524,116)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Expenditures incurred for Patents	(63,171)
Expenditures incurred for Equipment & Furniture	<u>(28,598)</u>
Net cash provided (used) by investing activities	<u>(91,769)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Increase (decrease) in loans-net	13,301
Cash from sale of common stock	656,319
Increase (decrease) in related party loans-net	<u>(39,310)</u>
Net cash provided (used) by financing activities	<u>630,310</u>
Net increase (decrease) in cash	14,425
CASH and equivalents, beginning of period	<u>25,863</u>
CASH and equivalents, end of period	<u><u>\$ 40,288</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Payment of taxes in cash	<u><u>\$ -</u></u>
Payment of interest in cash	<u><u>\$ -</u></u>
NON CASH DISCLOSURES:	
Services & expenses paid with 5,468,685 shares of restricted common stock	\$ 725,505
Debt & liabilities converted via issuing 1,706,174 shares of restricted common stock	168,377
Sale of 9,244,752 shares of common stock	656,319

The accompanying notes are an integral part of the financial statements

CYCLONE POWER TECHNOLOGIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2008

NOTE 1 - 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 developer and patent holder of the Cyclone Engine Technology.

Prior to July 2, 2007, the Company was a California corporation named Coastal Technologies, Inc., engaged in the business of medical software development. In June 2007, the Company re-domiciled to the state of Florida (from California) and changed its name to Cyclone Power Technologies, Inc.

On July 2, 2007, the Company acquired all of the assets and liabilities of the LLLP in exchange for 33,000,000 restricted shares of common stock and 501,000 shares of preferred stock (the "Acquisition"). Concurrently with the Acquisition, the management of the LLLP took control of the Board of Directors of the Company, and the assets of the Company related to its medical software business were spun-off to an entity controlled by the previous management of the Company.

The Company is a research and development company whose sole purpose is to develop, commercialize and market licenses for its Cyclone Engine Technology. From inception through September 30, 2008, the Company has not recognized significant revenues.

B. BASIS OF ACCOUNTING

The Company utilizes the accrual method of accounting, whereby revenue is recognized when earned and expenses when incurred. The unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. As such, the financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and these adjustments are of a normal recurring nature. The results of operations for the nine and three months ended September 30, 2008 are not necessarily indicative of the results for the full fiscal year ending December 31, 2008.

C. USE OF ESTIMATES

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

D. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand; cash in banks and any highly liquid investments with maturity of three months or less at the time of purchase. The Company maintains cash and cash equivalent balances at several financial institutions, which are insured by the Federal Deposit Insurance Corporation up to \$100,000.

E. COMPUTATION OF EARNINGS PER SHARE

Net income per share is computed by dividing the net income by the weighted average number of common shares outstanding during the period. Net income per share, diluted, is not presented as the preferred stock could have a dilutive effect.

CYCLONE POWER TECHNOLOGIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

F. INCOME TAXES

In February 1992, the Financial Accounting Standards Board issued Statement on Financial Accounting Standards 109 of "Accounting for Income Taxes." Under Statement 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

G. REVENUE RECOGNITION

Revenue for license fees is recognized upon the execution and closing of the license agreement for the amount of the license fee. License fees are generally due upon the execution of the license agreement. Revenue from royalty payments are estimated and accrued as earned. Any adjustments between actual royalty payments and estimates are made to current operations in the period they are determined.

H. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments", requires disclosures of information about the fair value of certain financial instruments for which it is practicable to estimate the value. For purpose of this disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The carrying amounts reported in the balance sheet for cash, accounts receivable, inventory, accounts payable and accrued expenses, and loans payable approximate their fair market value based on the short-term maturity of these instruments.

NOTE 2 - GOING CONCERN

As shown in the accompanying financial statements, the Company incurred substantial net losses for the nine months ending September 30, 2008 of \$ 1,674,942 and \$4,700,275 cumulatively since inception. It has a working capital deficit at September 30, 2008 of \$ 837,058. There is no guarantee whether the Company will be able to generate enough revenue and/or raise capital to support those operations. This raises substantial doubt about the Company's ability to continue as a going concern. Management also states that they are confident that they can improve operations and raise the appropriate funds to grow their underlying business. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. The Company is currently raising working capital to fund its operations via debt and private placements of common stock. The company has raised \$ 656,319 from the sale of common stock through September 30, 2008.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of amount due for license agreement with a company to produce small engines, and research and development prototype charges.

CYCLONE POWER TECHNOLOGIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2008

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2008 consists of the following:

Display Equipment Used in Trade Shows	\$ 9,648
Computer Hardware and Software	<u>37,180</u>
TOTAL	46,828
Less Accumulated Depreciation,	<u>(15,408)</u>
TOTAL	<u>\$31,420</u>

Depreciation expense for the nine months ending September 30, 2008 was \$ 11,955.

NOTE 5 – PATENTS AND TRADEMARKS AND COPYRIGHTS

The Cyclone Engine is currently protected under U.S. Patent # 7,080,512, with patents pending for the engine internationally. Earlier in 2007, the Company filed U.S. patent applications for the 11 major engine components, and completed the Patent Cooperation Treaty (PCT) filing for worldwide patent protection on all those components. This brings a total of 48 patents pending in the US and internationally on the engine and its components.

Patents, trademarks and copyrights consist of legal fees paid to file and perfect these claims. Patents, trademarks and copyrights are amortized over the life of the intellectual property which is 20 years. Amortization for the nine months ended September 30, 2008 and year ended December 31, 2007 was \$ 9,964 and \$ 7,740, respectively.

NOTE 6 – CONVERTIBLE NOTE AND OTHER LOANS PAYABLE

The convertible note originally payable for \$62,275, with a 6% annual interest rate, payable on demand, was transferred to the Company on July 2, 2007 as part of the Asset Acquisition of the assets and liabilities of the LLLP. On July 17, 2007, \$18,000 of the note was converted into 6,000,000 restricted common shares of the Company (\$0.003/share). The balance on the note as of September 30, 2008 was \$ 47,259 and accrued interest expense for the nine months ended September 30, 2008 was \$ 2,092.

The company converted \$20,000 of loans payable into 333,329 shares of restricted common stock in the nine months ending September 30, 2008

CYCLONE POWER TECHNOLOGIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2008

NOTE 7 – RELATED PARTY TRANSACTIONS

A. RELATED PARTY NOTES PAYABLE

Related party notes and accounts payable consist of \$ 556,337 due to Schoell Marine which is owned by Harry Schoell, who is the inventor of the Cyclone Engine and Chief Executive Officer of the Company. This note consists of services and salaries incurred by Schoell Marine on behalf of the Company. Schoell Marine also owns the building that is leased to the Company. The Schoell Marine note bears an interest rate of 6% and repayments occur as cash flow of the Company permit. During the nine months ended September 30, 2008, the Company had accrued interest expense of \$ 26,483.

B. LEASE ON WAREHOUSE

The Company leases its 6,000 square foot warehouse and office facility located at 601 NE 26th Court in Pompano Beach, Florida. The informal lease between the Company and 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 nine months ended September 30, 2008 were \$ 36,253 and \$ 36,000 for the period commencing in July 2007 through December 31, 2007

NOTE 8 – ACCRUED SALARIES

As of September 30, 2008, accrued salaries for corporate officers were \$ 186,257. Of this amount, \$157,708 can be paid in 2008 if funds are available. By agreement, the payment of the Chief Operating Officers' accrued salary of \$96,250 is deferred until 2009. In the third quarter ending September 30, 2008, \$148,377 of accrued salary was converted to 1,372,845 shares of common stock,

NOTE 9 – PREFERRED STOCK

Preferred stock consists of 500,000 Series A Convertible Preferred ("Series A") and 1,000 Series B Preferred ("Series B") shares. Series A shares are convertible after December 2008 or at such time that the Company raises an aggregate of \$5,000,000 in equity or debt financing, into a number of common shares that, when combined with the number of common shares that the Series A holders held as of July 2, 2007, equal sixty percent (60%) of the then total issued and outstanding common shares. The Series A holders are the original equity holders of the LLLP. The conversion of the Series A shares will have the effect of diluting all other common stock shareholders.

Series B shares are super-majority voting shares of the Company and are held by senior management.

CYCLONE POWER TECHNOLOGIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2008

NOTE 10 – CAPITAL TRANSACTIONS

As noted above in Footnote 1A, the Company is a research and development company and will not produce significant revenues until the technology has reached a point where licenses can be sold to companies that can utilize the Cyclone Engine Technology to produce marketable products. Until this time, the company relies on capital raised through loans, private placement memorandums and Regulation S transactions (stock sold to foreign investors) to fund operations. See statement of Stockholders equity (deficit) for details of capital transactions.

During the nine months ending September 30, 2008, the company issued 5,468,685 shares of restricted stock, valued at \$725,505 for services, based on the price of the most recent sale of company stock.

For the nine months ending September 30, 2008, the company sold 9,244,752 shares of restricted common stock for \$ 656,319 and converted \$ 168,377 of debt, accrued salaries and payables for 1,706,174 shares of restricted common stock.

NOTE 11 – INCOME TAX

Deferred assets and liabilities are measured using enacted tax rates in effect for the year in which temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. For the nine months ending September 30, 2008 and December 31, 2007 (post merger) the effective income tax rate is:

	Period ending	
	September 30, 2008	December 31, 2007
Statutory federal income tax rate	34%	34%
Valuation allowance	(34%)	(34)
Effective tax rate	---%	--%

The Company has a net operating loss carry forward as of December 31, 2007 of approximately \$1,388,000 which is offset by a 100% valuation allowance due to the uncertainty surrounding the ultimate realization of these assets. The loss carry-forwards expires in 15 years commencing 2007. Prior to the merger at July 2, 2007, the company was a limited partnership, and all income tax considerations were reflected on the individual members' tax returns.