



## **QUARTERLY REPORT**

**PERIOD ENDED MARCH 31, 2009**

**601 NE 26<sup>TH</sup> COURT  
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**[WWW.CYCLONEPOWER.COM](http://WWW.CYCLONEPOWER.COM)**

**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 26<sup>th</sup> Court  
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Investor Relations:  
Frankie Fruge  
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**Item 2 Shares Outstanding.**

**COMMON STOCK**

	<b>Q1 2009</b>	<b>FYE 2008</b>	<b>FYE 2007</b>
# of Shares Authorized	1,000,000,000	1,000,000,000	1,000,000,000
# of Shares Outstanding	86,877,706	83,016,048	61,648,436
Freely Tradable	30,653,471	30,653,471	27,999,841
# of Beneficial Shareholders	2,297	2,031	1,226
Total # of Shareholders of Record	2,758	2,505	1,592

**SERIES A CONVERTIBLE PREFERRED STOCK**

	<b>Q1 2009</b>	<b>FYE 2008</b>	<b>FYE 2007</b>
# of Shares Authorized	1,000,000 (1)	1,000,000 (1)	1,000,000(1)
# of Shares Outstanding	500,000	500,000	500,000
Freely Tradable	0	0	0
# of Beneficial Shareholders	22	22	22
Total # of Shareholders of Record	22	22	22

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

## SERIES B PREFERRED STOCK

	<b>Q1 2009</b>	<b>FYE 2008</b>	<b>FYE 2007</b>
# of Shares Authorized	1,000,000 <sup>(1)</sup>	1,000,000 <sup>(1)</sup>	1,000,000 <sup>(1)</sup>
# of Shares Outstanding	1,000	1,000	1,000
Freely Tradable	0	0	0
# of Beneficial Shareholders	2	2	2
Total # of Shareholders of Record	2	2	2

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

### **Item 3 Interim Financial Statements.**

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

	<u>Page #</u>
1) Balance Sheet	8
2) Statement of Operations	9
3) Statement of in Stockholder's Equity	10
4) Statement of Cash Flows	11
5) Notes to the Financial Statements	12-17

### **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 securing all of the

needed funding for the Company. If such funds cannot be raised or otherwise generated, the Company may be forced to reduce staff, minimize its research and development activities, or in a worst case scenario, shut-down operations. Management is cautiously optimistic, however, that it will be able to generate the funding required to continue and expand its operations over the long term.

In the quarterly period ended March 31, 2009 the Company issued 3,255,658 shares of restricted common stock in private placements under Regulation D and Regulation S of the Securities Act of 1933, as amended, for \$422,840 in net cash proceeds, which was used for general administrative, research and development, and marketing activities. Currently, management believes that the Company has cash reserves and cash commitments to sustain operations through Q3 2009.

Despite its limited cash resources, the Company is able to retain engineering, consulting, legal and accounting personnel partially through the issuance of restricted common stock. In the quarter period ended March 31, 2009, the Company issued 606,000 shares of restricted stock in lieu of \$81,153 in cash compensation. Management believes that the agreement of these individuals to forego some or all of their agreed upon cash compensation for shares of restricted common stock demonstrates a strong dedication and long-term commitment to the Company, its technology and its future prospects.

As a research and development company, a material portion of all funds raised or generated through operations are placed back into the R&D activities of the Company. The Company's R&D expenditures were \$235,739 for the quarterly period ended March 31, 2009. The Company also spent \$48,111 on U.S. and international patent filings, which it books as a capitalized expense.

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.

## **Subsequent Events**

After the end of the period ending March 31, 2009, the Company consummated: (1) a License Agreement with Renovalia Energy SA of Madrid, Spain, for solar thermal engines, and (2) a License Agreement with Waste Heat Resources, Inc., of Londonderry, NH, for waste heat recovery engines. The consummation of these two licenses should provide the Company with material fees over the next 12 months and strong positioning in the rapidly growing renewable power field.

Renovalia is one of the leading renewable energy companies in the world with over 500 MW of alternative power currently in its portfolio, including the largest photovoltaic solar power farm in the world. The license with Renovalia provides them with exclusive worldwide rights to manufacture and use the Cyclone Engines with their solar thermal solutions. Currently, the Company is developing with Renovalia a compact heat-regenerative engine (called Cyclone Solar I) to be coupled with their concentrating systems. For this right, Cyclone will initially receive \$550,000 in development fees over the following six to nine months as work progresses (the first payment of \$150,000 was delivered in Q2), and then on-going royalties on each Cyclone Solar I engine produced. Renovalia has agreed to pay minimum royalties over the life of the agreement in an amount over \$3 million. The Company has also issued to Renovalia a stock purchase warrant for eight million shares of restricted common stock, which vests upon the completion of the first Cyclone Solar I prototype by Renovalia and terminates 12 months thereafter. The warrant is exercisable at a strike price of \$.25 per share.

The Company's license with Waste Heat Resources provides them with the non-exclusive, US and Canadian rights to utilize Cyclone Engines for industrial waste heat recovery and electric power generation. More specifically, they will assist Cyclone in modifying the 95HP Mark V Engine, originally designed for automotive uses, to run on heat harvested from industrial furnaces, foundries and other massive heat-producing (and wasting) equipment. For these rights, Waste Heat Resources has committed to paying the Company \$500,000 in license fees over the next six to 12 months, and then on-going royalties based upon the total installation cost of their waste heat projects. It is too early to forecast royalty revenue from such projects.

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

**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 March 31, 2009, the Company issued shares of its common stock in private offerings and for services as follows:

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

**Item 8      Exhibits.**

**Technology License Agreement** between the Company and Renovalia Energy S.A., dated May 4, 2009, the material terms of which are described in Item 4 of this Quarterly Report: “Management’s Discussion and Analysis or Plan or Operation – Subsequent Events”.

**Systems Application License Agreement** between the Company and Waste Heat Resources Inc., dated April 18, 2009, the material terms of which are described in Item 4 of this Quarterly Report: “Management’s Discussion and Analysis or Plan or Operation – Subsequent Events”.

**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 March 31, 2009, 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.

June 1, 2009



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 March 31, 2009, 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.

June 1, 2009



Frankie Fruge  
COO & Controller

**CYCLONE POWER TECHNOLOGIES, INC.**  
**FINANCIAL STATEMENTS**  
**QUARTER ENDED**  
**MARCH 31, 2009**

	<u>Page #</u>
1) Balance Sheet	8
2) Statement of Operations	9
3) Statement of in Stockholder's Equity	10
4) Statement of Cash Flows	11
5) Notes to the Financial Statements	12-17

Cyclone Power Technologies Inc.  
Balance Sheets  
March 31 2009 and December 31, 2008  
(unaudited)

	March 31, 2009	December 31, 2008
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 117,014	\$ 1,366
Accounts receivable	78,245	87,245
Inventory	8,427	18,129
Total current assets	203,686	106,740
<b>PROPERTY AND EQUIPMENT</b>		
Furniture, fixtures, and equipment	47,880	47,880
Less: Accumulated depreciation	(30,702)	(28,185)
Total property and equipment	17,178	19,695
<b>OTHER ASSETS</b>		
Patents, Trademarks and Copyrights-(net of accumulated amortization of \$ 68,586 and \$ 64,018 at March 31, 2009 and December 31, 2008, respectively)	296,914	253,371
Total other assets	296,914	253,371
<b>Total Assets</b>	<b>\$ 517,778</b>	<b>\$ 379,806</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	410,404	451,512
Notes and loans payable	205,590	172,804
Deferred Revenue	125,000	61,511
Accounts and loans payable-related party	534,084	552,324
Total current liabilities	1,275,078	1,238,151
<b>Total liabilities</b>	<b>1,275,078</b>	<b>1,238,151</b>
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
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; 86,877,706 and 83,016,048 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	8,689	8,302
Additional paid-in capital	4,940,818	4,437,212
Accumulated (deficit)	(5,706,857)	(5,303,909)
Total stockholders' equity (deficit)	(757,300)	(858,345)
<b>Total Liabilities and Stockholders' Equity (Deficit)</b>	<b>\$ 517,778</b>	<b>\$ 379,806</b>

The accompanying notes are an integral part of the financial statements

Cyclone Power Technologies Inc.  
Statement of Operations  
For the Three Months Ending March 31, 2009 and 2008  
(unaudited)

	Three Months Ending Mar. 31, 2009	Three Months Ending Mar. 31, 2008
REVENUES	\$ 44,938	\$ 1,000
COST OF GOODS SOLD	18,129	-
Gross Profit	<u>26,809</u>	<u>1,000</u>
OPERATING EXPENSES		
Advertising and Promotion	12,074	11,694
General and Administrative	169,611	154,298
Research and Development	235,739	93,459
Total operating expenses	<u>417,424</u>	<u>259,451</u>
Operating income (loss)	<u>(390,615)</u>	<u>(258,451)</u>
OTHER INCOME (EXPENSE)		
Other Income (Expense)	-	-
Interest (expense)	<u>(12,333)</u>	<u>(8,898)</u>
Total other income (expense)	<u>(12,333)</u>	<u>(8,898)</u>
Loss before provision for income taxes	(402,948)	(267,349)
Provision for Income taxes	<u>-</u>	<u>-</u>
Net income (loss)	<u>\$ (402,948)</u>	<u>\$ (267,349)</u>
Net income (loss) per common share, basic	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
Weighted average number of common shares outstanding	<u>84,702,745</u>	<u>63,717,240</u>

The accompanying notes are an integral part of the financial statements

Cyclone Power Technologies Inc.  
Statement of Stockholders' (Deficit)  
March 31, 2009  
(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 (Deficit)</u>
	<u>Shares</u>	<u>Value</u>	<u>Shares</u>	<u>Value</u>	<u>Shares</u>	<u>Value</u>			
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					7,915,197	792	756,792		757,584
Sale of common stock					9,994,824	999	715,793		716,792
Conversion of debt & liabilities to common stock					3,457,591	346	348,397		348,743
Net (loss) year ending Dec. 31, 2008								(2,278,576)	(2,278,576)
Balance, Dec. 31, 2008	500,000	\$ 50	1,000	\$ -	83,016,048	\$ 8,302	\$ 4,437,212	\$ (5,303,909)	\$ (858,345)
Issuance of restricted shares for services					606,000	61	81,092		81,153
Sale of common stock					3,255,658	326	422,514		422,840
Net (loss) 3 months ending Mar. 31, 2009								(402,948)	(402,948)
Balance, March. 31, 2009	500,000	\$ 50	1,000	\$ -	86,877,706	\$ 8,689	\$ 4,940,818	\$ (5,706,857)	\$ (757,300)

The accompanying notes are an integral part of the financial statements

Cyclone Power Technologies Inc.  
Statements of Cash Flows  
For the Three Months Ending March 31, 2009 and 2008  
(unaudited)

	Three Months Ending Mar. 31, 2009	Three Months Ending Mar. 31, 2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (402,948)	\$ (269,349)
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Depreciation & Amortization	7,085	6,494
Issuance of restricted common stock for services	81,153	7,800
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	9,000	68,000
(Increase) decrease in inventory	9,702	-
Increase (decrease) in deferred revenue	63,489	-
Increase (decrease) in accounts payable and accrued expenses	(41,108)	191,643
Net cash provided (used) by operating activities	<u>(273,627)</u>	<u>4,588</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures incurred for Patents	(48,111)	(28,686)
Net cash provided (used) by investing activities	<u>(48,111)</u>	<u>(28,686)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (decrease) in loans-net	32,786	11,502
Proceeds from sale of common stock	422,840	-
Increase (decrease) in related party loans-net	(18,240)	(11,591)
Net cash provided (used) by financing activities	<u>437,386</u>	<u>(89)</u>
Net increase (decrease) in cash	115,648	(24,187)
CASH and equivalents, beginning of period	<u>1,366</u>	<u>25,863</u>
CASH and equivalents, end of period	<u>\$ 117,014</u>	<u>\$ 1,676</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Payment of taxes in cash	<u>\$ -</u>	<u>\$ -</u>
Payment of interest in cash	<u>\$ 224</u>	<u>\$ -</u>
<b>NON CASH DISCLOSURES:</b>		
Expenses paid with 606,000 and 390,000 shares of restricted common stock	\$ 81,152	\$ 7,800
Sale of 3,255,658 shares of common stock	422,840	-

The accompanying notes are an integral part of the financial statements

**CYCLONE POWER TECHNOLOGIES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
March 31, 2009

**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, an award-winning eco-friendly external combustion engine.

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 purpose is to develop, commercialize and market licenses for its Cyclone Engine Technology. From inception, the Company has not recognized significant revenues, until the quarter ending March 31, 2009.

**B. BASIS OF ACCOUNTING AND PRESENTATION**

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. 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 three months ended March 31, 2009 are not necessarily indicative of the results for the full fiscal year ending December 31, 2009. These financial statements should be read in conjunction with the financial statements for the year ended December 31, 2008. Prior year information, as presented, may have been reclassified to conform to the current presentation.

**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 \$250,000.

**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**  
March 31, 2009

**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, adopted by the company, 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 non refundable 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 continuing 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 three months ending March 31, 2009 of \$402,948, for the year ending December 31, 2008 of \$2,278,576 and \$5,706,857 cumulatively since inception. It has a working capital deficit at March 31, 2009 of \$1,071,392. There is no guarantee whether the Company will be able to generate enough revenue and/or raise capital to support its operations. This raises substantial doubt about the Company's ability to continue as a going concern. Management 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 \$422,840 from the sale of 3,255,658 shares of common stock for the three months ending March 31, 2009.

**NOTE 3 - ACCOUNTS RECEIVABLE**

Accounts receivable consist of amounts due from licenses and consulting/design agreements with licensees and other clients of company, and research and development prototype charges.

**CYCLONE POWER TECHNOLOGIES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
 March 31, 2009

**NOTE 4 – PROPERTY AND EQUIPMENT**

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

	Mar. 31, <u>2009</u>	Dec. 31 <u>2008</u>
Display Equipment for Trade Shows	\$ 9,648	\$ 9,648
Computer Hardware and Software	<u>38,232</u>	<u>38,232</u>
Total	47,800	47,800
Less: Accumulated Depreciation	<u>30,702</u>	<u>28,185</u>
Net Property and Equipment	<u>\$ 17,178</u>	<u>\$ 19,695</u>

Depreciation expense for the three months ending March 31, 2009 and for the year ending December 31, 2008 was \$2,517 and \$24,732 respectively.

**NOTE 5 – PATENTS AND TRADEMARKS AND COPYRIGHTS**

The Cyclone Engine is currently protected under U.S. Patent # 7,080,512, and its steam generator component is protected under U.S. Patent # 7,407,382. Additionally, the Company has filed patent applications in the U.S. on seven other major components of the engine, as well as the Waste Heat Engine. The Company also has received patents in seven countries and patents pending in five more countries for the Cyclone Engine; and has patent applications pending in all these foreign jurisdictions for two of its major engine components. The Company plans to continue to pursue patent protection in the U.S. and internationally for its intellectual property.

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

Patents, trademarks and copyrights consist of legal fees paid to file and perfect these claims. Patents, trademarks and copyrights are amortized over the life of the intellectual property which is 20 years. Amortization for the three months ending March 31, 2009 and the year ended December 31, 2008 was \$4,568 and \$56,278 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. Since July 2007, \$21,000 of the note has been converted into 7,000,000 restricted common shares of the Company. The balance on the note as of March 31, 2009 was \$ 46,337 inclusive of accrued interest expense for the three months ended March 31, 2009 of \$676. In April 2009, after the end of the quarter, the Company renegotiated the terms of the convertibility of this Note with its holder. Under these new terms, the principal balance of the note was reduced to \$40,000, the interest rate was reduced to 0%, and the holder agreed not to convert more than 2 million shares currently and then 2 million shares in any 12 month period, starting on July 1, 2009 and ending July 1, 2011.

**CYCLONE POWER TECHNOLOGIES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
March 31, 2009

**NOTE 7 – RELATED PARTY TRANSACTIONS**

**A. RELATED PARTY NOTES PAYABLE,**

At March 31, 2009, related party notes and accounts payable, include \$530,841 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. The note is secured by a UCC-1 filing on the Company's patents and patent applications. During the three months ended March 31, 2009 \$26,000 was paid on the note balance and the Company had accrued interest expense of \$8,079.

**B. LEASE ON WAREHOUSE**

The Company leases its 6,000 square foot warehouse and office facility located at 601 NE 26<sup>th</sup> 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 year ended December 31, 2008 were \$72,253 and \$19,080 for the three months ending March 31, 2009.

**NOTE 8 – ACCRUED AND DEFERRED SALARIES**

As of March 31, 2009, accounts payable includes accrued salaries for corporate officers of \$201,634, and \$158,750 of deferred officer compensation, all of which can be paid in 2009 if funds are available.

**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 currently convertible into a number of common shares that, when combined with the 33 million common shares that the Series A holders held as of July 2, 2007, 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. As of March 31, 2009, the Series A shares were convertible into approximately 46 million shares of common stock. The Series B shares are majority voting shares and are held by senior management. Ownership of the Series B shares assures the holders thereof a 51% voting control over the common stock of the Company. The Series B shares are convertible on a one-for-one basis with the common stock in the instance the Company is merged or sold.

**CYCLONE POWER TECHNOLOGIES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
March 31, 2009

**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, and domestic and foreign private placements to fund operations.

During the three months ending March 31, 2009, the Company issued 421,000 shares of restricted stock, valued at \$55,318 for general and administrative services, and issued 185,000 shares of restricted stock, valued at \$25,835 for Research and Development related services and activities.

During the three months ending March 31, 2009 the Company sold 3,255,658 shares of restricted common stock for \$422,840 in net cash proceeds.

**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 from a change in tax rates is recognized in the period that includes the enactment date. For the three months ending March 31, 2009 and the year ending December 31, 2008 the effective income tax rate is:

	Period ending	
	March 31, 2009	Dec. 31, 2008
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 March 31, 2009 of approximately \$4,000,000 which is offset by a 100% valuation allowance due to the uncertainty surrounding the ultimate realization of these assets. The loss carry-forward 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.

**CYCLONE POWER TECHNOLOGIES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
March 31, 2009

**NOTE 12 – RECENT ACCOUNTING PRONOUNCEMENTS**

In December 2007, the FASB issued SFAS No. 160, “*Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51.*” SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51’s consolidation procedures for consistency with the requirements of SFAS No. 141(R). SFAS No. 160 is effective for fiscal years beginning December 15, 2008. The Company does not expect that this interpretation will have a material impact on its financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (“SFAS 161”), requiring disclosures about derivative instruments, and related hedged items. The Company does not believe that application of this FASB would have a material impact on the financial statements.

In April 2008, FASB Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3) was issued. This revises the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. The Company is determining what the application of this Staff Position would have on the financial statements.

**NOTE 13 – SUBSEQUENT EVENTS**

In addition to events described in Note 6 above, after the end of the quarter the Company consummated: (1) a License Agreement with Renovalia Energy SA of Madrid, Spain, for solar thermal engines, and (2) a License Agreement with Waste Heat Resources, Inc., of Londonderry, NH, for waste heat recovery engines. These two agreements provide for up-front license and development fees to the Company and on-going royalty revenues based on production and sales of Cyclone engines by the respective licensees. As of the date of this filing, \$150,000 in development fees has been paid by Renovalia under its agreement.