QUARTERLY REPORT

PERIOD ENDED SEPTEMBER 30, 2010

601 NE 26TH COURT
POMPANO BEACH, FL 33064
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Item 1 **Exact name of the issuer and address of its principal executive offices.**

Cyclone Power Technologies, Inc.

Formerly: Coastal Technologies, Inc. until 7-07

601 NE 26th Court
Pompano Beach, FL 33064
Tel: 954-943-8721
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www.cyclonepower.com

Investor Relations:
Christopher Nelson
General Counsel and Executive Vice President
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Item 2 **Shares Outstanding.**

COMMON STOCK

	Q3 2010	FYE 2009	FYE 2008
Shares Authorized	300,000,000*	1,000,000,000	1,000,000,000
Shares Outstanding	113,127,306	103,699,113	83,016,048
Freely Tradable	48,411,921	37,352,203	30,653,471
Beneficial Shareholders	3,044	2,582	2,031
Total Shareholders of Record	3,402	2,950	2,505

* Authorized shares reduced from 1,000,000,000 to 300,000,000 per shareholder consent as of April 29, 2010

SERIES A CONVERTIBLE PREFERRED STOCK

	Q3 2010	FYE 2009	FYE 2008
Shares Authorized	750,000	550,000	500,000
Shares Outstanding	661,453	540,000	500,000
Freely Tradable	0	0	0
Beneficial Shareholders	53	25	22
Total Shareholders of Record	53	25	22

SERIES B PREFERRED STOCK

	Q3 2010	FYE 2009	FYE 2008
Shares Authorized	1,000	1,000	1,000
Shares Outstanding	1,000	1,000	1,000
Freely Tradable	0	0	0
Beneficial Shareholders	2	2	2
Total Shareholders of Record	2	2	2

Warrants and Stock Options. The Company has issued the following common stock warrants:

Shares Exercisable	Exercise Price	Vesting	Termination
8,000,000	$.25	Jan 1, 2011(1)	Jan 1, 2012(1)
2,262,546(2)	$.19	Jan 1, 2011(3)	Jan 1, 2013(3)
770,500	$.15	Aug. 23, 2010	Aug. 23, 2010

(1) Estimated date of Vesting and Termination based the Company's License Agreement with Renovalia Energy, SA.
(2) Estimated number of shares based on 2% of the total current outstanding shares of common stock as of 9/30/10.
(3) Estimated date of Vesting and Termination based the Company's License Agreement with Phoenix Power Systems

The Company has issued the following stock options to management and other service providers:

Shares Exercisable	Avg. Exercise Price	Vesting	Avg. Termination
1,000,000	$.325	Vested	July 1, 2018
450,000	$.15	April 1, 2011	April 1, 2021
150,000	$.097	June 30, 2010	June 30, 2020
170,000	$.098	Sept. 2, 2011	Sept. 2, 2016
150,000	$.092	Sept. 30, 2011	Sept. 30, 2021

Item 3 Interim Financial Statements.

Interim Financial Statements for the period ended September 30, 2010 have been attached to the end of this Quarterly Report and are ordered as follows:

Item 4 Management's Discussion and Analysis or Plan or Operation

The Company started to generate revenue from its operations in 2008; however, it has not had material or consistent revenue in each of the last two fiscal years. In order for the Company to maintain and expand its operations through the next 12 months, it must:

1. Continue to raise through capital infusions, either by means of equity or debt offerings, a minimum of $1 million and up to $5 million; or

2. Continue to secure license and development agreements that provide up-front fees or guaranteed royalties, which is in the normal course of the Company's business.

The Company is currently raising working capital to fund its operations via private placements of common and preferred stock, and has ongoing and pending contracts that are expected to generate operating cash. Currently, management believes that the Company has cash reserves and cash commitments to sustain operations through 2010. There is no guarantee, however, that the Company will be able to generate enough revenue and/or raise capital to support its operations, and 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. At this time, management is cautiously optimistic that they can improve operations and raise the appropriate funds to grow their underlying business.

Material Events. The Company made substantial progress in the recent quarter towards the completion of its waste heat engine (WHE-25 model) prototypes, which it expects will lead to the commercialization of this product in the first half of 2011. Among the material events was the delivery in July of the WHE-25 system to Bent Glass design in Hatboro, PA, for installation on its glass manufacturing furnace. This system will recover over 500,000 BTU of exhaust heat to run the WHE-25 and combined with a grid-tied electric generator, which will offer the customer a predicted pay-back in less than 24 months. In November, the electric utility PECO approved the Company's application to connect the system to the grid, allowing this installation to go live sometime in the fourth quarter of 2010.

The Company anticipates considerable commercial opportunities for power production using the WHE-25, both in waste heat recovery applications, for which there is an estimated $20 billion in potential installations in the U.S., as well as other applications such as waste oil recycling and biomass combustion. In connection with this, the Company received a new Purchase Order in the third quarter from its licensee Phoenix Power Group for two WHE-25 engine systems to power their prototype waste motor oil power generators, called the *Phoenix 10*. Phoenix Power is partnered with Clean Burn, the world leader in waste oil heaters and furnaces, to market and distribute these systems to oil change shops, lube centers, auto parts retailers and other locations throughout North America. The first two prototype systems are schedule to be debuted at the December 2010 Power-Gen Show in Orlando, FL.

Further advancing the pace of commercialization of the Company's WHE-25 system in the third quarter 2010 were developments in China with the Company's licensee Great Wall Alternative Power Systems. In August, the Company approved the intellectual property and patent protection systems implemented by Great Wall to maintain and secure the Company's valuable assets in China. This critical process was a condition precedent to the Company delivering design plans for the WHE-25, which Great Wall has contracted to build in China in connection with a biomass combustion system. Such a product would be for sale in rural China, where the need for electricity production from biomass and other materials easily found in the area is substantial and has received the strong support of the Chinese government.

During the third quarter the Company also received three additional patents for its engines in the U.S. – one on the condenser system, one on the pre-heater system, and a second patent on the entire engine system. The Company also received its second engine patent in Korea, from where it has recently received strong indications of interest from manufacturing and business entities.

Private Placements. In the nine months ended September 30, 2010, the Company sold 1,850,912 shares of restricted common stock and 99,000 shares of Series A Convertible Preferred Stock in private placements under Regulation D of the Securities Act of 1933, as amended, for a total of $661,677. These funds are being used for general administrative, research and development, and marketing activities. The issuance of additional shares of Series A Convertible Preferred Stock does not increase the number of shares of common stock into which all shares of Series A stock are convertible, and therefore, is not additionally dilutive to the common stock shareholders.

Stock for Services. Despite its limited cash resources, the Company is able to retain engineering, consulting, legal and accounting personnel partially through the issuance of restricted common stock. In the nine months ended September 30, 2010, the Company issued 5,077,281 shares of restricted common stock, 2,500 shares of Series A Convertible Preferred Stock and 920,000 restricted common stock options in lieu of $544,333 in cash compensation. Management believes that the agreement of these individuals to forego some or all of their agreed upon cash compensation for shares and options of restricted common stock demonstrates a strong dedication and long-term commitment to the Company and its future prospects.

Research & Development. As a research and development company, a material portion of all funds raised or generated through operations are placed back into the R&D activities of the Company. The Company's R&D expenditures were $651,799 for the nine months ending September 30, 2010. This is reduced compared to the same period of 2009 partially due to the Company redirecting resources from R&D to inventory, reflecting engines commissioned by several customers that are nearing their completion and delivery dates. The Company also spent $86,967 on U.S. and international patent filings during the nine months ending September 30, 2010.

Commitments for Capital Expenditures. During the nine months ending September 30, 2010, the Company acquired $24,131 of property and equipment (fixed assets). Should additional 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 employees on payroll, including the recruitment of high level executive management and additional engineers and mechanical staff. Such new hires will considerably increase the Company's monthly operational expenses.

Results of Operations

<u>Three Months Ended September 30, 2010 compared to Three Months Ended September 30, 2009</u>

Revenues. Revenues for the three months ended September 30, 2010 were $97,475 as compared to $7,000 for previous year period, an increase of $90,475. Revenue in recent quarter was comprised of $25,000 for shipment of the Company's initial waste heat engine for installation at Bent Glass Design in July 2010; $62,476 from the delivery of engineering specifications and designs to the Company's licensee, Great Wall Alternative Power Systems; and $10,000 from consulting fee from Raytheon Company. Revenue in 2009 was derived from consulting and design services.

Gross Profit. Gross profit for the three months ended September 30, 2010 was $76,812 compared to $1,525 for the previous year period. For the three months ended September 30, 2010 and 2009, the gross profit margins were 79% and 22% of revenue, respectively.

Operating Expenses. Total operating expenses incurred for the three months ended September 30, 2010 were $625,625 as compared to $669,568 for previous year period, a decrease of $43,943 or 6.5%. This decrease is primarily due to lower R&D costs of $145,161 (39%), reflective of the assignment of production resources to deliverable inventory (a balance sheet item), partially offset by higher G&A expenses of $111,512 (41%) attributable to common stock options issued to employees valued at $133,183 in 2010.

Net Income and Earnings per Share. The net loss for the three months ended September 30, 2010 was ($559,022) as compared to a net loss of ($683,034) for the previous year period, a reduced loss of $124,012 or 19%. Net loss per weighted average share was ($0.01) for both quarters.

<u>Nine Months Ended September 30, 2010 compared to Nine Months Ended September 30, 2009</u>

Revenues. Revenues for the nine months ended September 30, 2010 were $202,375 as compared to $101,938 for the previous year period, an increase of $100,437 (98%). In addition to the revenue items recognized in the current quarter from Bent Glass, Great Wall and Raytheon, this increase in 2010 revenue includes delivery of the Company's biomass-to-power (waste heat engine) beta system to Robotic Technology Inc., under it Phase II SBIR DARPA-sponsored project.

Gross Profit. Gross profit for the nine months ended September 30, 2010 was $129,915 versus $51,121 for the previous year period, an increase of $78,794 or 154%. For the nine months ended September 30, 2010 and 2009, gross profit margins were 64% and 50% of sales, respectively.

Operating Expenses. Total operating expenses incurred for the nine months ended September 30, 2010 were $1,782,561 as compared to $1,833,777 for the previous year period, a decrease of $51,216 (3%). This decrease is primarily due to lower R&D costs of $288,228 (34%), reflective of the assignment of production resources to deliverable inventory (a balance sheet item), and lower expenses for R&D services paid with common stock. This is largely offset by expanded general and administrative expenses of $251,717 (30%) inclusive of common stock options to employees and higher audit and legal professional expenses incurred in connection with our financial audit conducted in preparation of filing with the Securities and Exchange Commission to become a public reporting company.

Other Income and Expenses. In the nine months ended September 30, 2010, the Company recognized $29,998 of gain by selling for a corresponding reduction of debt for a 5% equity share in its consolidated subsidiary Cyclone-WHE LLC to a minority investor. Also, the Company provided for a loss of $159,050 in converting a $15,950 loan into issuances of 2.5 million shares of restricted common stock that occurred in the third quarter of 2010.

Net Income and Earnings per Share. The net loss for the nine months ended September 30, 2010 was $1,814,594 as compared to a net loss of $1,810,379 for the previous year period, a higher loss of $4,215 or 0.2%. Net loss per weighted average share was ($0.02) for both quarters.

Liquidity and Capital Resources

At September 30, 2010, net working capital was ($2,271,984) as compared with ($1,886,841) at December 31, 2009, a decline of ($385,143) or 20%. Funds for the nine months ended September 30, 2010 were used by the net loss of $1,814,594, an increase in inventory of $79,729, an increase in fixed assets of $24.131, and $86,967 expended for patents.

Funds were provided by the sale of 1,850,912 shares of common stock for $151,078, 99,100 shares of Series A Convertible Preferred Stock for $510,600, an increase in related party loans of $88,344, net higher related party payables of $210,918 (primarily deferred and accrued officers' salaries), $162,476 of higher deferred revenue and deposits, and a non-cash loss provision for $159,050 on debt conversion to common stock. Additionally, to conserve cash, the Company issued for services 5,077,281 shares of restricted common stock and 920,000 restricted common stock options valued at $549,333.

If the Company needs to obtain capital, no assurance can be given that it will be able to obtain this capital on acceptable terms, if at all. In such an event, this may have a materially adverse effect on the Company's business, operating results and financial condition. If the need arises, the Company may attempt to obtain funding or pay expenses through the continued sale or issuance of restricted stock. The Company may also use various types of short term funding, related party advances and expenses payment deferrals and external loans. Management is cautiously optimistic that it will be able to generate the funding required to continue and expand its operations over the long term.

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, at this time.

Item 6 Defaults Upon Senior Securities.

The Company has no defaults upon senior securities.

Item 7 Other Information.

For the three month period ended September 30, 2010, the Company issued shares of its Common Stock and Series A Convertible Preferred Stock in private offerings, for services rendered, and in conversion of notes and corporate debt, as follows:

# of Shares	Amount	Nature of Offering	Trading Status/Restrictions
1,008,334	$ 58,750	Common Stock - Services Rendered*	Restricted as per Rule 144
100,000	$ 5,700	Common Stock - Regulation D 506	Restricted as per Rule 144
2,500,000	$ 12,500	Common Stock – Note Conversion	Restricted as per Rule 144
17,300	$103,000	Series A Preferred – Regulation D 506	Restricted as per Rule 144

* Stock for services included 166,667 stares to officers and directors of the Company.

Item 8 Exhibits.

There are no new Exhibits from the previous filing.

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, 2010, 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 12, 2010

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, 2010, 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 12, 2010

Frankie Fruge
COO & Controller

CYCLONE POWER TECHNOLOGIES, INC.
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

CYCLONE POWER TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2010
(Unaudited)

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 24,809
Inventory	220,570
Other current assets	828
Total current assets	246,207
PROPERTY AND EQUIPMENT	
Furniture, fixtures, and equipment-net	132,375
Less: Accumulated depreciation	(49,898)
Net property and equipment	82,477
OTHER ASSETS	
Patents, trademarks and copyrights	492,187
Less: Accumulated amortization	(72,827)
Net patents, trademarks and copyrights	419,360
Other assets	1,160
Total other assets	420,520
Total Assets	$ 749,204
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Notes and other loans payable	$ 5,000
Notes and other loans payable-related parties	656,244
Capitalized leases-current portion	7,363
Accounts payable and accrued expenses	210,115
Accounts payable and accrued expenses-related parties	888,356
Deferred revenue	694,951
Warranty provision	1,162
License deposit	55,000
Total current liabilities	2,518,191
NON CURRENT LIABILITIES	
Capitalized lease obligations-net of current portion	4,495
Total non-current liabilities	4,495
Total Liabilities	2,522,686
MINORITY EQUITY IN CONSOLIDATED SUBSIDIARY	60,009
STOCKHOLDERS' DEFICIT	
Series A convertible preferred stock, $.0001 par value, 750,000 shares authorized, 661,453 shares issued and outstanding at Sept 30, 2010	66
Series B preferred stock, $.0001 par value, 1,000 shares authorized, 1,000 shares issued and outstanding.	-
Common stock, $.0001 par value, 300,000,000 shares authorized; 113,127,326 shares issued and outstanding at Sept. 30, 2010	11,313
Additional paid-in capital	7,914,552
Prepaid expenses via equity contribution	(42,500)
Series A preferred stock subscription receivable	(18,000)
Accumulated deficit	(9,698,922)
Total stockholders' deficit	(1,833,491)
Total Liabilities and Stockholders' Deficit	$ 749,204

The accompanying notes are an integral part of the financial statements

CYCLONE POWER TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
(Unaudited)

	2010	2009
REVENUES	$ 97,475	$ 7,000
COST OF GOODS SOLD	20,663	5,475
Gross Profit	76,812	1,525
OPERATING EXPENSES		
Advertising and promotion	12,851	23,145
General and administrative	384,551	273,039
Research and development	228,223	373,384
Total operating expenses	625,625	669,568
Operating loss	(548,813)	(668,043)
OTHER INCOME (EXPENSE)		
Other income (expense)	-	-
Interest (expense)	(10,209)	(14,991)
Total other (expense)	(10,209)	(14,991)
Loss before income taxes	(559,022)	(683,034)
Income taxes	-	-
Net loss	$ (559,022)	$ (683,034)
Net loss per common share, basic	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding	111,587,326	96,193,867

The accompanying notes are an integral part of the financial statements

CYCLONE POWER TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
(Unaudited)

	2010	2009
REVENUES	$ 202,375	$ 101,938
COST OF GOODS SOLD	72,460	50,817
Gross Profit	129,915	51,121
OPERATING EXPENSES		
Advertising and promotion	39,225	53,930
General and administrative	1,091,537	839,820
Research and development	651,799	940,027
Total operating expenses	1,782,561	1,833,777
Operating loss	(1,652,646)	(1,782,656)
OTHER INCOME (EXPENSE)		
Other income (expense)	(129,052)	10,387
Interest (expense)	(32,896)	(38,110)
Total other (expense)	(161,948)	(27,723)
Loss before income taxes	(1,814,594)	(1,810,379)
Income taxes	-	-
Net loss	$ (1,814,594)	$ (1,810,379)
Net loss per common share, basic	$ (0.02)	$ (0.02)
Weighted average number of common shares outstanding	109,919,621	89,853,582

The accompanying notes are an integral part of the financial statements

CYCLONE POWER TECHNOLOGIES, INC.
STATEMENT OF STOCKHOLDERS' DEFICIT
FOR YEAR ENDED DECEMBER 31, 2009
AND THE NINE MONTHS ENDED SEPTEMBER 30, 2010
(Unaudited)

	Preferred Stock A		Preferred Stock B		Common Stock		Additional Paid In	Preferred Stock A Subscription	Prepaid Expenses Via Subsidiary Equity	Accumulated	Total Stockholders
	Shares	Value	Shares	Value	Shares	Value	Capital	Receivable	Contribution	(Deficit)	(Deficit)
Balance, December 31, 2008	500,000	$ 50	1,000	$ -	83,016,048	$ 8,302	$ 4,468,122	$ -	$ -	$ (5,359,227)	$ (882,753)
Issuance of restricted common shares for services					7,422,900	742	892,943				893,685
Sale of common stock					8,247,597	824	1,006,427				1,007,251
Issuance of restricted shares for debt conversion					4,000,000	400	19,600				20,000
Issuance of Series A preferred stock for notes receivables	15,000	1					21,195	(18,000)			3,196
Issuance of Series A preferred stock for debt conversion	25,000	3					29,997				30,000
Issuance of common stock stock pursuant to reverse merger adjustment					1,012,588	101	(101)				0
Net loss year ended December 31, 2009									0	(2,525,101)	(2,525,101)
Balance, December 31, 2009	540,000	$ 54	1,000	$ -	103,699,133	$ 10,369	$ 6,438,183	$ (18,000)	$ -	$ (7,884,328)	$ (1,453,722)
Sale of common stock					1,850,912	186	150,891				151,077
Issuance of restricted common shares and options for services					5,077,281	508	531,325				531,833
Issuance of restricted common shares for debt convestion					2,500,000	250	12,250				12,500
Sale of Series A preferred stock	99,000	10					510,590				510,600
Issuance of Series A Restricted Preferred Stock for services	2,500						12,500				12,500
Issuance of Series A preferred stock for debt & liability conversion	19,953	2					99,763				99,765
Prepaid expenses via subsidiary equity contribution									(60,000)		(60,000)
Amortization of prepaid expense via equity contribution									17,500		17,500
Provision for loss on conversion of debt into common stock							159,050				159,050
Net loss nine months ended September 30, 2010										(1,814,594)	(1,814,594)
Balance, September 30, 2010	661,453	$ 66	1,000	$ -	113,127,326	$ 11,313	$ 7,914,552	$ (18,000)	$ (42,500)	$ (9,698,922)	$ (1,833,491)

The accompanying notes are an integral part of the financial statements

CYCLONE POWER TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
(Unaudited)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,814,594)	$ (1,810,379)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation & amortization	42,215	27,688
Issuance of restricted common stock, equity and options for services	531,833	500,152
Issuance of restricted series A preferred stock for services	12,500	
Write-off of abandoned patent	-	24,715
Foregiveness of debt income	-	10,387
Provision for loss on debt conversion	159,050	-
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	-	2,000
(Increase) decrease in inventory	(79,729)	(23,951)
(Increase) decrease in other assets	12,090	(7,778)
Increase in deferred revenue and deposits	162,476	363,489
Increase (decrease) in accounts payable and accrued expenses	134,117	(11,008)
Increase in accounts payable and accrued expenses-related parties	210,918	-
Increase in warranty and loss provisions	(3,874)	-
Net cash used by operating activities	(632,998)	(924,685)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for patents, trademarks and copyrights	(86,967)	(129,420)
Expenditures for fixed assets	(24,131)	(10,781)
Net cash used by investing activities	(111,098)	(140,201)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in loans-net	(3,450)	(79,501)
Payment of capitalized leases	(6,225)	(2,452)
Proceeds from sale of common stock	151,078	872,312
Proceeds from sale of preferred stock	510,600	-
Increase (decrease) in related party notes and loans payable	88,344	325,261
Net cash provided by financing activities	740,347	1,115,620
Net increase (decrease) in cash and cash equivalents	(3,749)	50,734
Cash and cash equivalents, beginning of period	28,558	1,366
Cash and cash equivalents, end of period	$ 24,809	$ 52,100
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Payment of interest in cash	$ 2,346	$ 1,193
NON CASH INVESTING AND FINANCING ACTIVITIES:		
Expenses paid with 5,077,281 and 3,019,737 shares of restricted common stock	$ 397,767	$ 500,152
Expenses paid with 920,000 restricted common stock options	134,066	-
Expenses paid with 2,500 shares of Series A preferred stock	12,500	-
Conversion of debt by issuing 2,500,000 and 4,000,000 shares of common stock	12,500	23,917
Conversion of debt & liabilities by issuing 19,953 shares of Series A preferred stock	99,765	-
Conversion of debt by selling 5% of consolidated subsidiary equity	30,000	-

The accompanying notes are an integral part of the financial statements

CYCLONE POWER TECHNOLOGIES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30 2010

NOTE 1 – ORGANIZATIONAL AND SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION AND OPERATIONS

Cyclone Power Technologies, Inc. (the "Company") is the successor entity to the business of Cyclone Technologies LLLP (the "LLLP"), a limited liability limited partnership formed in Florida in September 2004. The LLLP was the developer and patent holder of the Cyclone Engine Technology.

Prior to July 2, 2007, the predecessor to the Company was a California corporation named Coastal Technologies, Inc. (the "Pink Sheet Company") which was engaged in the business of medical software development, and was listed in the Pink Sheets Electronic Market Place. In September 2007, in connection with its reverse merger into the Pink Sheet Company, the Company re-domiciled to the state of Florida and changed its name to Cyclone Power Technologies, Inc.

Commencing in the second quarter of 2010, the Company has started operations in a consolidated subsidiary (Cyclone-WHE LLC) to license and market waste heat recovery systems for all engine models. As of September 30, 2010, the Company has an 85% equity interest in the subsidiary.

The Company is primarily a research and development company whose main purpose is to develop, commercialize and market licenses for its Cyclone Engine Technology.

B. ACCOUNTING STANDARDS CODIFICATION

The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 105-10 in September 2009, to be effective September 15, 2009. This establishes the ASC codification as the single source of authoritative nongovernmental Generally Accepted Accounting Principles (GAAP). All existing accounting standards are superseded as described in *FASB Accounting Standards Codification* (SFAS) No. 168, aside from those issued by the SEC. All other accounting literature not included in the Codification is non-authoritative. Adoption of this Codification as of September 30, 2009, which is reflected in our disclosures and references to accounting standards, had no change to our financial position or results of operations.

C. SUBSEQUENT EVENTS

In May 2009, the FASB issued SFAS No. 165, (ASC 855) *Subsequent Events* (ACS 855) which offers assistance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ACS 855 does not result in material changes in the subsequent events that an entity reports. This guidance requires disclosure of the date through which events subsequent to the Balance Sheet date have been evaluated and whether that date represents the date the financial statements were issued or were available to be issued. ASC 855 is effective for interim and annual periods ending after September 15, 2009. We evaluated events occurring between the end of our fiscal quarter ending September 30, 2010 and November 3, 2010 when the financial statements were available to be issued.

D. PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Cyclone Power Technologies and its 85% owned subsidiary, (Cyclone-WHE LLC). All material inter-company transactions and balances have been eliminated in the consolidated financial statements. The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information, As such not all of the information and footnotes required by generally accepted accounting principles for complete financial statements have been presented.

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.

E. 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.

F. COMPUTATION OF LOSS PER SHARE

Net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is not presented as the conversion of the preferred stock and exercise of outstanding stock options and warrants could have an anti-dilutive effect, which as of September 30, 2010, amounted to approximately 100 million shares.

G. INCOME TAXES

Income taxes are accounted for under the asset and liability method as stipulated by Accounting Standards Codification (“ASC”) 740 formerly Statement of Financial Accounting Standards (”SFAS”) No. 109, “*Accounting for Income Taxes*”. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities or a change in tax rate is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced to estimated amounts to be realized by the use of a valuation allowance. A valuation allowance is applied when in management's view it is more likely than not (50%) that such deferred tax will not be utilized.

Effective January 1, 2009, the Company adopted certain provisions under ASC Topic 740, Income Taxes, ("ASC 740"), which provide interpretative guidance for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Effective with the Company's adoption of these provisions, interest related to the unrecognized tax benefits is recognized in the financial statements as a component of income taxes. The Adoption of ASC 740 did not have an impact on the Company's financial position and results of operations.

In the unlikely event that an uncertain tax position exists in which the Company could incur income taxes, the Company would evaluate whether there is a probability that the uncertain tax position taken would be sustained upon examination by the taxing authorities. Reserves for uncertain tax positions would be recorded if the Company determined it is probable that a position would not be sustained upon examination or if payment would have to be made to a taxing authority and the amount is reasonably estimated. As of December 31, 2009, the Company does not believe it has any uncertain tax positions that would result in the Company having a liability to the taxing authorities. The Company's tax returns are subject to examination by the federal and state tax authorities for the years ended 2006 through 2009.

H. REVENUE RECOGNITION

The Company's revenue recognition policies are in compliance with Staff Accounting Bulletin ("SAB") 104, included in the Codification as ASC 605, *Revenue Recognition*. Sales revenue is recognized at the date of shipment of prototypes, engine designs, research reports or other deliverables to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as deferred revenue. The Company does not allow its customers to return prototype products. It is the Company's intention, when it has royalty revenue from its contracts, to book royalty revenue in the quarter received. The Company does not have any royalty revenue to date.

I. INVENTORY

Inventory is recorded at the lower of standard cost or market.

J. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820 Fair Value "Measurements and Disclosures" requires disclosures of information about the fair value of certain financial instruments for which it is practicable to estimate the value. For purpose of this disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The carrying amounts reported in the balance sheet for cash, accounts receivable, inventory, accounts payable and accrued expenses, and loans payable approximate their fair market value based on the short-term maturity of these instruments.

K. RESEARCH AND DEVELOPMENT

Research and development activities for product development are expensed as incurred. Costs for the nine months ended September 30, 2010 and 2009 were $651,799 and $940,027, respectively.

L. STOCK BASED COMPENSATION

The Company applies the fair valve method of ASC 718, Share Based Payment, formerly Statement of Financial Accounting Standards ("SFAS") No. 123R *"Accounting for Stock Based Compensation"*, in accounting for its stock based compensation. This standard states that compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. As the Company does not have sufficient, reliable and readily determinable values relating to its common stock, the Company has used the stock value pursuant to its most recent sale of restricted stock sold to unaffiliated third-parties in the U.S. for purposes of valuing stock based compensation.

M. COMMON STOCK PURCHASE WARRANTS

The Company accounts for common stock purchase warrants at fair value in accordance with ASC 815-40 *Derivatives and Hedging*, formerly Emerging Issues Task Force Issue ("EITF") No. 00-19, *"Accounting for Derivative Financial Instruments Indexed to and Practically Settled in a Company's Own Stock"*. The Black-Scholes option pricing valuation method is used to determine fair value of these warrants consistent with ASC 718, *Share Based Payment*, formerly Statement of Financial Accounting Standards ("SFAS") No. 123 R *"Accounting for Stock Based Compensation."* Use of this method requires that the Company make assumptions regarding stock volatility, dividend yields, expected term of the warrants and risk-free interest rates.

The Company accounts for transactions in which services are received in exchange for equity instruments based on the fair value of such services received from non-employees, in accordance with ASC 505-50 *Equity Based payments to Non-employees*, formerly EITF No. 96-18, *Accounting for Equity Instruments that are Issued to other than Employees for Acquiring, or in Conjunction with Selling Goods or Services.*

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 of generally three or seven years. 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.

P. RECLASSIFICATIONS

Certain prior years' comparative figures have been reclassified to conform to the financial statement presentation adopted for this year.

Q. INTERIM ACCOUNTING AND SAS 100 REVIEW

The results of operations for the nine months ended September 30, 2010 are not necessarily indicative of the results for the full fiscal year ending December 31, 2010. These financial statements should be read in conjunction with the financial statements and footnotes for the year ended December 31, 2009.

The Company is not required to have quarterly financial statements reviewed pursuant to SAS 100 since it is a "pink sheet" filer. These financial statements have not been reviewed, but an applicable review will be performed with the anticipated S-1 registration statement.

R. CURRENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standard Board (FASB) in October 2009 issued Account Standards Update (ASU) 2009-13 Revenue Recognition (Topic 605). This update provides guidance for revenue recognition consideration in multiple-deliverable contractual arrangements. The update requires that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. This update will be effective after September 15, 2010, and early adoption is permitted. The Company has implemented this update effective for the years beginning January 1, 2010. The disclosure requirements for this update are:

a. Multiple deliverable arrangements: the Company has contracts that provide for a working prototype or plans/schematics of the prototype engine (initial deliverable) and will record royalty fees after the customer constructs and puts the engine into operation or manufacturing, depending on the terms of the agreement.

b. The initial deliverables are usually within a year of signing of the contract and upon the complete customer payment of the initial license/development fees.

c. Revenue is based on the initial license/development fees charged for the deliverable, and then royalty income is recognized thereafter, through the life of the contract.

The implementation of this topic did not have any material effect on the financial statements and did not change any pattern and timing of revenue recognition.

In January 2010 FASB issued ASU "Equity" (Topic 505), accounting for distributions to shareholders with components of stock and cash. This amendment affects entities that declare dividends to shareholders that may be paid in cash or shares at the election of the shareholders with a potential limitation in the total amount of cash that all shareholders can elect to receive in the aggregate. The Company is evaluating the effect of this update.

NOTE 2 - GOING CONCERN

As shown in the accompanying financial statements, the Company incurred substantial net losses for the nine months ending September 30, 2010 of $1,814,594 and $2,525,101 for the year ended December 31, 2009. Cumulative losses since inception are $9,698,922. The Company has a working capital deficit at September 30, 2010 of $2,271.984. 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 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 pursuant to private placements of Series A Convertible Preferred stock, common stock and advances from and deferred payments to related parties. The Company has raised $661,678 from the sale of 99,000 shares of Series A Convertible Preferred stock and 1,850,912 shares of common stock for the nine months ending September 30, 2010.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts due pursuant to licenses and development agreements, research and development prototype and analysis charges.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2010 consists of the following:

	2010
Display Equipment for Trade Shows	$9,648
Leasehold Improvements	46,332
Equipment and Computers	76,395
Total	132,375
Less: Accumulated Depreciation	49,898
Net Property and Equipment	$82,477

Depreciation expense for the nine months ended September 30, 2010 and 2009 was $19,784 and $11,142, 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. The Company received patent approval in the U.S. for the engine's valve/timing mechanisms in February 2010 and for its reversing and timing control mechanism in April 2010. In the third quarter of 2010, the Company received three more patents approvals in the U.S., on its combustion chamber, pre-heater mechanism, and a second overall patent on the entire engine. Additionally, the Company has filed patent applications in the U.S. on two other major components of the engine, as well as the Waste Heat Engine, for which it is pending approval. The Company also has received patents in seven countries plus the European Economic Union, which covers approximately 40 countries (which would require the Company perfecting the EEU patent in some or all of these countries), and patents pending in five more countries for the Cyclone Engine; and has patent applications pending in some of these foreign jurisdictions for some 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. For the nine months ended September 30, 2010 $86,967 was capitalized. Patents, trademarks and copyrights are amortized over the life of the intellectual property which is estimated at 15 years. Amortization for the nine months ended September 30, 2010 and 2009 was $21,735 and $ 16,547, respectively.

NOTE 6 – NOTES AND OTHER LOANS PAYABLE

A summary of non related party notes and other loans payable as of September 30, 2010 is as follows:

6% uncollateralized convertible note payable on demand for original principal	$5,000
Total current non-related party notes and loans payable	$ 5,000

In the second quarter of 2010, the company provided for a loss of $159,050 in converting a $15,950 loan into the issuance, in the third quarter, of 2.5 million shares of restricted common stock.

A summary of related party notes and other loans payable as of September 30, 2010 is as follows:

6% demand loans to company owned by shareholder, collateralized by lien on Company's patent application for its waste heat engine, balance includes principal and unpaid interest. For the nine months ending September 30, 2010 the capitalized unpaid interest is $1,444	$ 7,727
6% demand loans per Operations Agreement with Schoell Marine Inc., a company owned by Cyclone's CEO and controlling shareholder, collateralized by lien on Cyclone's patent for heat regenerative engine, balance includes principal and unpaid interest. For the three months ending September 31, 2010 the capitalized unpaid interest is $16,324.	552,171
6% promissory note from an officer shareholder, due January 21, 2011, unsecured and convertible into restricted common stock at $.08 per share	96,346
Total current related party notes and loans payable	$ 656,244

NOTE 7 – RELATED PARTY TRANSACTIONS

A. LEASE ON OFFICE/WAREHOUSE

The Company leases a 6,000 square foot warehouse and office facility located at 601 NE 26th Court in Pompano Beach, Florida. The lease, which is part of the Company's Operations Agreement with Schoell Marine, provides for the Company to pay rent equal to the monthly mortgage payment on the building plus property taxes, rent, utilities and sales tax due on rent. Occupancy costs for the nine months ended September 30, 2010 and 2009 were $47,223 and $57,240, respectively. The Operations Agreement runs year-to-year, however, the lease portion of this agreement is month-to-month, but can only be cancelled on 180 days notice by Schoell Marine.

B. DEFERRED COMPENSATION

Included in related party payables is $888,356 of accrued and deferred officers' salaries compensation which can be paid if funds are available. These are non-interest bearing and due on demand.

NOTE 8 – PREFERRED STOCK

Series A Convertible Preferred Stock is 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 will 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 plus approximately 40 additional investors who have purchased shares of Series A stock in the Company's current private offering. The conversion of the Series A shares will have the effect of diluting all other common stock shareholders. As of September 30, 2010, the Series A were convertible into approximately 87.2 million shares of common stock. In 2009, the Company issued 15,000 shares of Series A preferred stock for $18,000 pursuant to notes receivable that are still outstanding.

The Series B Preferred Stock is majority voting shares held by senior management. Ownership of the Series B shares assures the holders thereof a 51% voting control over the common stock of the Company. The Series B shares are convertible on a one-for-one basis with the common stock in the instance the Company is merged or sold.

NOTE 9 – PREFERRED AND COMMON STOCK AND OPTION TRANSACTIONS

The Company relies on capital raised through loans, Regulation D private placements and Regulation S transactions (stock sold to foreign investors) to fund operations; however, since the beginning of 2009, the Company has commenced to generate revenue from license and development fees earned in connection with certain license agreements.

During the nine months ended September 30, 2010 the Company issued 5,077,281 shares of restricted common stock for services valued at $397,767 and 920,000 of common stock options valued (by the Black Scholes valuation method) at $134,066. Also, 2,500 shares of Series A preferred stock was issued for services valued at $12,500.

In March 2010, the Company commenced a private placement of up to 200,000 shares of its Series A preferred stock at a price of $5.00 per share. Proceeds from this offering will be used for operations and working capital purposes. In contemplation of this offering, the Company also filed an amendment to its Articles of Incorporation to increase its authorized Series A Preferred Stock to 750,000 shares.

During the nine months ended September 30, 2010 the Company sold 1,850,912 shares of restricted common stock for $151,078 and 99,000 shares of Series A Preferred stock for $510,600.

NOTE 10 – INCOME TAXES

A reconciliation of the differences between the effective income tax rate and the statutory federal tax rate for the nine months ending September 30, 2010 is as follows:

Tax benefit at U.S. statutory rate	34%
State taxes, net of federal benefit	4
Change in valuation allowance	(38)
	-

As of December 31, 2009, the Company had a net operating loss carry forward for income tax reporting purposes of approximately $6.2 million that may be offset against future taxable income through 2028. 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 11 – LEGAL MATTERS

The Company is not involved in any litigation at this time, and management knows of no legal proceedings against the Company, threatened, pending or otherwise.

NOTE 12 – COMMON STOCK WARRANTS AND OPTIONS

As part of the license and royalty agreement with Renovalia Energy S.A. ("Renovalia") of Madrid, Spain, for solar thermal engines, the Company issued to Renovalia stock purchase warrants for 8,000,000 shares of restricted common stock, exercisable at a strike price of $.25 per share. These warrants vest upon the completion, delivery and testing of the first two Cyclone Solar I prototypes by Renovalia (projected for the first half of 2011) and terminate 12 months thereafter. The warrants are valued at approximately $157,702 (by the Black-Scholes valuation method) and are to be amortized in conjunction with revenue recognition from this contract, anticipated to commence in 2011.

As part of the Company's license agreement with Phoenix Power Group ("Phoenix"), the Company issued to Phoenix common stock purchase warrants at a price of $.19 per share, equal to two (2%) percent of the total issued and outstanding common stock of the Company at the time of exercise. The warrants vest upon the delivery of the first two prototype engines to Phoenix and payment by Phoenix of the full $400,000 license, and terminate 24 months thereafter. Delivery of the prototypes is estimated in December 2010 or the first quarter of 2011. The warrants are valued at approximately $100,000 (by the Black-Scholes valuation method) and are to be amortized in conjunction with revenue recognition from this contract, anticipated to commence in 2010.

As part of the sale of 6,700 shares of Series A preferred stock for $50,000, on August 23, 2010 the Company issued warrants for the purchase of 770,500 shares of restricted common stock at an exercise price of $.15 per share, ($115,575 in aggregate) expiring in 24 months.

NOTE 13 – CAPITALIZED LEASE OBLIGATIONS

In 2009, the Company acquired $27,401 of property and equipment via capitalized lease obligations at an average interest rate of 18.4%. The balance of leases payable at September 30, 2010 was $11,858. Subsequent lease payments are:

2010	$ 4,573
2011	4,748
2012	904
2013	1,095
2014	538
	$ 11,858
	=======

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Company has employment agreements with Harry Schoell, CEO, at $150,000 per year, and Frankie Fruge, COO, at $120,000 per year (the "Executives"), that provide for a term of three (3) years from their Effective Date (July 2, 2007), with automatically renewing successive one year periods starting on the end of the second anniversary of the Effective Date. If either Executive is terminated "without cause" or pursuant to a "change in control" of the Company, as both defined in the respective agreements, the Executive shall be entitled to (i) any unpaid Base Salary accrued through the effective date of termination, (ii) the Executive's Base Salary at the rate prevailing at such termination through 12 months from the date of termination or the end of his Term then in effect, whichever is longer, and (iii) any Performance Bonus that would otherwise be payable to the Executive were he not terminated, during the 12 months following his or her termination.

NOTE 15 – CONSOLIDATED SUBSIDIARY

Commencing in the second quarter of 2010, the Company has started operations in a subsidiary (Cyclone-WHE LLC) to license and market waste heat recovery systems for all engine models. A 5% equity participation was sold to a minority investor for $30,000, via the conversion of Cyclone note payable for a profit of $29,998. An additional 5% was purchased directly from the subsidiary by a minority investor for services valued at $30,000 consisting of assistance in marketing, management and financing for company and future projects to be carried out by Cyclone-WHE LLC. These services are being amortized over a 12 month period.

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