

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

or

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

For the transition period from _____ to _____

COATES INTERNATIONAL, LTD.
(Exact name of registrant as specified in its charter)



Commission File Number: 000-33155

Delaware

(State or other jurisdiction of incorporation or organization)

22-2925432

(I.R.S. Employer Identification No.)

2100 Highway 34 & Ridgewood Road, Wall Township, New Jersey 07719

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (732) 449-7717

Securities registered under Section 12(b) of the Exchange Act:

Title of each class:

None

Name of each exchange on which registered:

None

Securities registered under Section 12(g) of the Exchange Act:

(Title of class)

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter: \$4,812,254.

As of April 17, 2018, the number of outstanding shares of the registrant’s common stock, par value \$0.0001 per share was 51,138,928.

Documents Incorporated by Reference: None.

COATES INTERNATIONAL, LTD.
ANNUAL REPORT ON FORM 10-K
DECEMBER 31, 2017

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this “Report”) contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Exchange Act of 1934, as amended. Forward-looking statements discuss matters that are not historical facts. Because they discuss future events or conditions, forward-looking statements may include words such as “anticipate,” “believe,” “estimate,” “intend,” “could,” “should,” “would,” “may,” “seek,” “plan,” “might,” “will,” “expect,” “predict,” “project,” “forecast,” “potential,” “continue,” negatives thereof, or similar expressions. These forward-looking statements are found at various places throughout this Report and include information concerning possible or assumed future results of our operations; business strategies; future cash flows; financing plans; plans and objectives of management; any other statements regarding future operations, future cash needs, business plans and future financial results, and any other statements that are not historical facts.

From time to time, forward-looking statements are also included in our other periodic reports on Forms 10-Q and 8-K, in our press releases, in our presentations, on our website and in other materials released to the public. Any or all of the forward-looking statements included in this Report and in any other reports or public statements made by us are not guarantees of future performance and may turn out to be inaccurate. These forward-looking statements represent our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors. Many of those factors are outside of our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Report. All subsequent written and oral forward-looking statements concerning other matters addressed in this Report and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Report.

Except to the extent required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, a change in events, conditions, circumstances or assumptions underlying such statements, or otherwise.

For a discussion of factors that we believe could cause our actual results to differ materially from expected and historical results see “Item 1A — Risk Factors” below.

PART I

Item 1. Business

General

Coates International, Ltd. (“we” or the “Company”) has been developing over a period of more than 20 years the patented Coates Spherical Rotary Valve® (“CSRVR”) system technology which is adaptable for use in piston-driven internal combustion engines of many types. Independent testing of various engines in which we incorporated our CSRVR system technology (“CSRVR Engines”) confirmed meaningful fuel savings when compared with internal combustion engines based on the conventional “poppet valve” assembly prevalent in most internal combustion engines throughout the world. In addition, our CSRVR Engines produced only ultra-low levels of harmful emissions while in operation. Engines operating on the CSRVR system technology can be powered by a wide selection of fuels. We believe that these three major advantages of the CSRVR system technology constitute the first revolutionary technological advancement of the internal combustion engine suitable for large scale production since its introduction more than one hundred years ago.

The CSRVR system is designed to replace the intake and exhaust conventional “poppet valves” currently used in almost all piston-driven stationary, automotive, motorcycle, and marine engines. Unlike conventional valves which protrude into the engine combustion chamber, the Coates® rotary valve system utilizes spherical valves that rotate in a cavity formed between a two-piece cylinder head. The Coates rotary valve system uses approximately 1/10th of the moving parts of conventional poppet valve assemblies. As a result of these design improvements, management believes that the engines incorporating the Coates rotary valve system (Coates Engines®) will last significantly longer and will require less lubrication over the life of the engine, as compared to conventional engines. In addition, Coates rotary valves can be designed with a larger opening into the engine cylinder than conventional valves so that more fuel and air can be inducted into and expelled from the cylinder in a shorter period of time. Larger valve openings permit higher revolutions-per-minute (RPM’s) and permit higher compression ratios with lower combustion chamber temperatures, allowing the Coates Engine® to produce more power than equivalent conventional engines. The CSRVR engine is a highly thermal-efficient power unit.

We have been granted an exclusive license to this technology from our founder, George J. Coates and his son, Gregory G. Coates (the “Coates License Agreement”), in the Territory defined to include North America, Central America and South America (the “Americas”).

Since inception, the bulk of our development costs and related operational costs have been funded through cash generated from the sales of our common stock, issuances of promissory notes and convertible promissory notes, capital contributions, licensing fees for our CSRVR system technology, revenue from the performance of contractual research and development activities involving the CSRVR system technology, sales of a small number of natural gas powered CSRVR industrial electric power generator sets (“Gen Sets”) and a gain on the sale of the land and building that serves as our principal operating facility. During the years ended December 31, 2017 and 2016, we did not have any sales and we had revenues from research and development of \$19,200 and \$29,200, respectively. For the years ended December 31, 2017 and 2016, we incurred net losses of (\$8,386,000) and (\$8,356,000), respectively. The accumulated net losses from inception of the Company through December 31, 2017, amounted to approximately (\$73,713,000). We may continue to be unprofitable until the CSRVR Engine is successfully introduced into the marketplace, or we receive substantial licensing revenues. These accumulated losses were substantially related to research and development of our intellectual property, patent filing and maintenance costs, costs incurred related to efforts to raise additional working capital and general and administrative expenses in connection with our operations. During the year ended December 31, 2017, we raised \$955,000 of new working capital from issuances of convertible promissory notes, issuances of promissory notes to related parties, sales of registered shares of common stock under equity purchase agreements and private sales of common stock and common stock warrants.

The Company is a Delaware Corporation which was organized in October 1991 as successor-in-interest to a Delaware corporation of the same name incorporated in August 1988. Our operations are located in Wall Township, New Jersey (approximately 60 miles outside of New York City). We maintain a website at the following address: www.coatesengine.com. Through a link on our website to the U.S. Securities and Exchange Commission (“SEC”) website, www.sec.gov, we provide free access to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “1934 Act”) as soon as reasonably practicable after electronic filing with the SEC. Our Code of Business Conduct and Ethics for our directors, officers and employees can be viewed on our website at www.coatesengine.com. We will post on our website any waivers of, or amendments to, such code of ethics. Our website and the information contained therein or linked thereto are not incorporated by reference into this report.

Background

Coates Spherical Rotary Valve® System Technology

The internal combustion engine has been in use for more than 100 years and is the most widely used engine in the world. Industry sources indicate that there are more than 120 million new combustion engines built in the world every year and that 40 million engines are rebuilt annually. In the late 1960's and 1970's, most vehicle combustion engines in the United States were running at a compression ratio of 12 to 1 which resulted in an engine thermal efficiency of approximately 35 percent. The rest of the engine's power is lost in friction, pumping and heat loss. It was learned that lead additives in fuel created unacceptable health risks, therefore the lead was removed. The use of unleaded gasoline created a number of technical problems, principally related to overheating of the engine compression chamber, causing pre-ignition and resulting in damage to the engine. The problem was largely solved by lowering engine compression ratios, thereby lowering thermal efficiency from approximately 35% to approximately 22%. This loss of efficiency reduces gas mileage and engine performance. Efficiency can be improved by increasing "volumetric efficiency" at maximum RPM's, but conventional poppet valves tend to "float" or bounce at higher RPM's and are consequently unable to deliver adequate air to the cylinder. In an attempt to solve this problem, engine manufacturers increased the number of poppet valves per cylinder, but this approach created other problems that caused unburned fuel to escape through the exhaust valve stems leading to a loss of power, lower gas mileage, and increased pollutants. However, variable valve timing can partially solve these additional problems, but that solution involves additional moving parts that eventually degrade and wear out. Also, variable valve timing on quick deceleration can cause piston and valve contact with resultant serious damage to the engine. Furthermore, conventional valves with solid "valve lifters" as opposed to hydraulic valve lifters must have clearances readjusted periodically. Poppet valves are the most troublesome part of the internal combustion engine. The basic inefficiencies of the conventional poppet valve design result in engine inefficiency and decreases in engine life, thermal efficiency, fuel efficiency, engine power output and increased pollution.

Conventional poppet valves also have significant environmental deficiencies. Conventional exhaust valve stems are lubricated with engine oil which burns off in the combustion chamber and is expelled through the exhaust directly into the atmosphere. Intake valves are also lubricated with engine oil, which is washed off and forced into the combustion chamber with the air and fuel mixture. This slows combustion, produces further emissions and eventually clogs the catalytic converter.

Management believes that the patented CSRV® system solves or significantly mitigates these problems. Coates rotary valves® are vented and charged on the opposite side of each valve sphere and rotate away from the combustion chamber, reducing combustion chamber constant temperature and allowing higher compression ratios that make the engine significantly more efficient and powerful.

We have successfully adapted our technology to industrial engines to power electric generators and intend to begin to manufacture and market engines, once we raise sufficient working capital, utilizing our proprietary designs operating on a multitude of fuels such as LNG, CNG, propane, flare-off gas and hydrogen.

Hydrogen Reactor Technology Owned by George J. Coates

George J. Coates has developed a hydrogen reactor which rearranges H₂O water molecules into HOH molecules also known as Hydroxy-Gas. Hydroxy-Gas has a different molecular structure than hydrogen gas which will power the Hydrogen Gen Sets. It consists of two hydrogen atoms. The Hydroxy-Gas produced by the hydrogen reactor can then be harvested for use as a type of fuel. While Mr. Coates intends to continue with development of this technology to enable the harvested Hydroxy-Gas to be utilized as the fuel source to power our patented CSRV® Engines, development is being intentionally postponed in order to focus on developing Hydrogen Gen Sets. The next phase of this research and development will focus on powering larger, industrial engines. If successful, this application will only require a ready supply of water and would be suitable for stationary engines and generators. Conventional internal combustion engines employing poppet valve assemblies require lubrication and would experience excessive heat and friction if powered with Hydroxy-Gas. This, in turn, would cause the engines to burn out in a rather short period of time. The materials and components of the CSRV® Engines do not require such lubrication and because of their design, are able to operate relatively trouble-free on Hydroxy-Gas as the engine fuel. There can be no assurance that this technology can be developed successfully, or that if developed, it will be feasible to penetrate the internal combustion engine market with this technology.

We previously agreed to collaborate on the development of this technology with WTF Asia International Ltd. ("WTF Asia"), a Hong Kong-based entity to enable it to be applied to large industrial Gen Sets. We have determined that it is no longer feasible to work with WTF Asia due to the owner's health and concerns with the status of WTF Asia's technology. The Company intends to independently pursue further development of this technology.

We anticipate that application for patent protection of this technology will be filed upon completion of the research and development. Although at this time no arrangements have been made between us and George J. Coates, owner of the technology, regarding licensing of the hydrogen reactor, Mr. Coates has provided his commitment to license this technology to us once the related patent protection is in place. Accordingly, we do not currently have any rights to manufacture, use, sell and distribute the hydrogen reactor technology, should it become commercially feasible to manufacture and distribute products powered by the Hydroxy-Gas fuel. We have been responsible for all costs incurred to date related to the development of this technology.

Markets

The design of the CSRV[®] system technology provides us with the flexibility to retrofit our existing internal combustion engines of all sizes and applications to appeal to a number of different geographic and product markets. In addition, the CSRV[®] system technology has been designed to operate effectively on a wide range of alternative fuels. Accordingly, there are no technical barriers that need to be overcome in order to strategically target economically feasible markets for products powered by internal combustion engines including, but not limited to the following: engines for electric power generators for various applications ranging from home use to the largest industrial complexes to augmented “grid” installations; engines to power motorcycles, automobiles, light trucks, heavy trucks, machinery, railroads, marine engines, military equipment, light aircraft, helicopters, lawn mowers, snowmobiles and jet skis, etc.

According to the most recent available data in a table published by the Federal Highway Administration of the U.S. Department of Transportation titled “Highway Statistics 2016,” there were total U.S. vehicle registrations for the fifty states as follows:

Automobiles	Buses	Trucks	Motorcycles	Total
112,961,266	976,161	146,182,276	8,679,380	268,799,083

Strategy

Our long-term objective is to become a leader throughout the Americas in the design, manufacture, licensing to third party manufacturers and sales and distribution of our CSRV[®] internal combustion engines for a wide variety of uses. Our primary targeted market is the industrial electric power generator market. We have adapted the CSRV[®] system technology to manufacture our 14.0 liter inline, 6-cylinder, 855 cubic inch engine industrial generator fueled by natural gas (“Natural Gas Gen Sets”), one of many types of Natural Gas Gen Sets. In parallel to penetrating the commercial/industrial generators market, we intend to adapt the CSRV[®] system technology to be used in other markets, in which internal combustion engines are used, such as motor vehicles, motorcycles, trucks, ships, trains, military equipment, light aircraft, helicopters and others.

Operational Plan

Manufacturing, Sales and Distribution

We have completed development of the CSRV[®] system technology-based Natural Gas Gen Sets and are prepared to commence the production phase of our operations, provided we raise sufficient new working capital.

We may also pursue other opportunities to enter into licensing arrangements with third party manufacturers with existing industry experience and manufacturing capacity.

We intend to take advantage of the fact that essentially all the components of the CSRV[®] generator engine may be readily sourced and acquired from subcontractors, and, accordingly, expect to manufacture the engine generator by developing assembly lines within owned manufacturing facilities. We intend to initially commence production of Gen Sets on a small scale. This will enable us to prove our concept for the CSRV[®] system technology and we expect this will dovetail with the existing substantial demand in the marketplace. We plan to address this demand by establishing large scale manufacturing operations in the United States. Transitioning to large scale manufacturing is expected to require a substantial increase in our work force and substantial capital expenditures.

Our ability to establish such manufacturing operations, recruit plant workers, finance initial manufacturing inventories and fund capital expenditures is highly dependent on our ability to successfully raise substantial new working capital in an amount and at a pace which matches our business plans. Potential sources of such new working capital include sales of our equity and/or debt securities through private placement, pursuing and entering into additional sublicensing agreements with OEM’s and/or distributors and positive working capital generated from sales of our CSRV[®] products once we raise sufficient new working capital and commence production. Although we have been successful in raising sufficient working capital to continue our ongoing operations, we have encountered very challenging credit and equity investment markets and have not been able to raise sufficient new working capital to enable us to commence production of our CSRV[®] products. There can be no assurance that we will be successful in raising adequate new working capital or even any new working capital to carry out our business plans.

Sublicensing

In February 2015, we granted a non-exclusive distribution sublicense to Renown Power Development, Ltd., a China-based sales and distribution company (“Renown”) covering the territory defined as the Western Hemisphere. Under this sublicense, Renown will be permitted to sell, lease and distribute CSR[®]V products. We received an initial non-refundable deposit of \$500,000 to date. In addition, after Renown receives an aggregate of \$10,000,000, it is required to pay us 25% of all funds it receives from any and all sources until it fully pays the contractual licensing fee. Renown has not made any payments towards this license during the years ended December 31, 2017 and 2016. Until Coates Power can begin production of CSR[®]V products for Renown, we will not receive any further monies from our sublicense with Renown.

Coates Power has agreed to initially source its production parts and components from us. In February 2015, we received cash with an order from Coates Power for approximately \$131,000 of production parts and components, at cost, in connection with its plans to manufacture two initial Gen Sets. In June 2015, by mutual consent of the parties, it was agreed that we would assemble two completed Gen Sets for shipment to Coates Power in China in lieu of shipping the parts and components. This amount is included in Deposits in the accompanying balance sheet at December 31, 2017.

Material Agreements

License Agreement – George J. Coates and Gregory G. Coates

We hold a license from George J. Coates and Gregory G. Coates which provides us with the right to use, manufacture, distribute, lease and sublicense the patented CSR[®]V system technology (the “Coates License Agreement”) in the territory defined as the Western Hemisphere. Under the Coates License Agreement, we were granted an exclusive, perpetual, royalty-free, fully paid-up license to the intellectual property that specifically relates to an internal combustion engine that incorporates the CSR[®]V Engine and that is currently owned or controlled by them (the “CSR[®]V Intellectual Property”), plus any CSR[®]V Intellectual Property that is developed by them during their employment with us. In the event of insolvency or bankruptcy of the Company, the licensed rights would terminate and revert back to George J. Coates and Gregory G. Coates.

Non-Exclusive Distribution Sublicense Agreement with Renown Power Development, Ltd.

This material sublicense agreement, which was consummated in February 2015, is discussed in detail above under the section titled “*Sublicensing*.”

Sublicense Agreement with Almont Energy, Inc. for the Territory of Canada

In 2010, Almont Energy Inc. (“Almont”), a privately held, independent third-party entity based in Alberta, Canada became the assignee of a sublicense which covers the use of the CSR[®]V system technology in the territory of Canada in the oil and gas industry (the “Canadian License”). This sublicense is currently inactive because the parties have not fulfilled their obligations thereunder due to our delay in starting up production and delivery of CSR[®]V products to Almont. The parties mutually agreed to consider the basis on which the license could be reactivated at such time that we are successful in starting up manufacturing operations.

Competition

Management believes that the Coates Engine[®] generators which are based on the CSRV[®] system technology will provide substantially enhanced efficiencies in power generation and longevity. We believe that the Coates Engines[®] will outperform other comparable natural gas-fueled electric generator engines currently utilized in the energy conversion market.

Notwithstanding our perceived competitive advantages, the power generation market is a highly competitive industry currently occupied by extremely large companies such as Caterpillar, Inc., which owns MAK, Perkins and FG Wilson, Detroit Diesel Corporation, AB Volvo, Cummins and Marathon, among others. These companies have far greater financial and other resources than we do and already occupy segments of the power generation market. In order to successfully penetrate this industry, the Coates Engines[®] will have to produce the performance and durability results anticipated by management and sell at a price or prices that will enable it to effectively compete and gain entrance into this market.

Parts and Supplies

To date, management has utilized the services of various vendors and suppliers available throughout the United States to provide all of the parts necessary to produce the Coates Engines[®]. We intend to continue to purchase all of our raw materials and parts, manufactured to our specifications, from a wide assortment of suppliers. We have signed a letter of intent with Marathon Electric Manufacturing Corp. for the supply of generators and components. We also entered into an agreement with Cummins Power Systems (a business owned by Cummins Inc.) to supply industrial engine blocks and components to us for our manufacturing activities. We intend to initially commence the assembly of the Coates Engines[®] at our existing New Jersey facility and to subsequently acquire additional facilities to increase our manufacturing capacity, as needed.

Licenses and Patents

The Coates License Agreement grants us an exclusive, perpetual, royalty-free, fully paid-up license in the territory of North, Central and South America, to use all intellectual property rights that are currently owned or controlled by the licensors that directly relate to an internal combustion engine that includes the CSRV[®] system technology. The license also covers any new or improved technology and related intellectual property rights that are directly related to the CSRV[®] Engine system technology developed by the licensors during their employment with us.

Included in the license are intellectual property rights for 17 patents registered in the United States; certain patents registered in Canada, Mexico, in countries in Central and South America relating to the CSRV[®] system technology; and one U.S. patent application filed by Mr. George J. Coates. These patents are owned by George J. Coates and Gregory G. Coates. Under our license agreement, we are obligated to pay for all costs relating to the ongoing maintenance of the patents.

We rely upon patents, trade secrets, know-how and continuing technological innovation to develop and maintain our competitive position. We can provide no assurance that we can successfully limit unauthorized or wrongful disclosures of trade secrets or otherwise confidential information. In addition, to the extent we rely on trade secrets and know-how to maintain our competitive technological position, there can be no assurance that others might not independently develop the same, similar or superior techniques.

We have also granted sublicenses to Renown Power Development, Ltd. and Almont Energy, Inc. as discussed in more detail under the section titled "Plan of Operations." The sublicense with Almont is currently in an inactive status.

Environmental Regulatory Compliance

All of our engines, including the Coates Engine[®], are subject to extensive environmental laws, rules and regulations that impose standards for emissions and noise. Initially, compliance with the emissions standards promulgated by the U.S. Environmental Protection Agency ("EPA"), as well as those imposed by the State of New Jersey and other jurisdictions where we expect our engines will be used, will have to be achieved in order to successfully market the Coates Engine[®]. When selling individual engines, we are not subject to the governmental standards as set forth in 40CFR (Code of Federal Regulations) 1048, which regulates environmental standards for natural gas-powered industrial engines. In this case, the purchaser or sublicensee becomes responsible for complying with applicable governmental standards in its territory. We believe that our natural gas-powered engine/generators comply with governmental standards as set forth in 40CFR (Code of Federal Regulations) 1048, that regulates environmental standards for natural gas-powered industrial engines. Our ability to comply with applicable and future emissions standards is necessary for us to enter and continue to operate in the power generation and other markets. Failure to comply with these standards could result in a material adverse effect on our business and financial condition.

Employees

We currently have four (4) employees, including George J. Coates and his son Gregory G. Coates, who perform management, assembly and research and development functions. None of our employees are represented by a labor union or are a party to a collective bargaining agreement. We believe that we have good relations with our employees.

Available information

Our website address is www.coatesengine.com. We do not intend our website address to be an active link or to otherwise incorporate by reference the contents of the website into this Report. The public may read and copy any materials we file with the U.S. Securities and Exchange Commission (the "SEC") at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0030. The SEC maintains an Internet website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors

You should carefully consider the risks described below, together with all of the other information included in this report, in considering our business and prospects. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. The occurrence of any of the following risks could harm our business, financial condition or results of operations.

Risk Factors Relating to Our Financial Condition:

Our Independent Registered Public Accountants have expressed substantial doubt about our ability to continue as a going concern.

As shown in the accompanying financial statements, we have incurred recurring losses from operations of (\$73,713,210); and, as of December 31, 2017 had a stockholders' deficiency of (\$6,009,408) and negative working capital of (\$7,467,000). In addition, our mortgage loan which had a principal balance of \$1,273,158 at December 31, 2017, matures in July 2018. We will be required to renegotiate the terms of an extension of the mortgage loan or successfully refinance the property with another mortgage lender, if possible. Failure to do so could adversely affect our financial position and results of operations. Further, the recent trading price range of our common stock has introduced additional risk and difficulty to our challenge to secure needed additional working capital. These factors raise substantial doubt about our ability to continue as a going concern within one year after the date of filing of this annual report on Form 10-K. Our Independent Registered Public Accountants have stated in their Auditor's Report dated April 13, 2018 with respect to our financial statements as of and for the year ended December 31, 2017 that these circumstances raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary should we become unable to continue as a going concern.

The substantial doubt about our ability to continue as a going concern has been reported, as required by generally accepted accounting principles, since 1995. In spite of this continuing doubt, we have developed a long history of meeting our obligations as they come due, year after year. During the year ended December 31, 2017, we met our obligations as they became due by raising additional working capital of \$955,004 from issuances of convertible promissory notes, issuances of promissory notes to related parties and sales of registered shares of common stock under an equity purchase agreement.

Although there can be no assurance that we will be able to overcome this doubt in the future, our management believes that we can continue to meet our obligations as they come due in consideration of the following:

- We expect to continue to raise working capital from a number of sources to meet our ongoing obligations as they become due. These sources may include deposits on new sublicense agreements, sales of common stock and warrants, proceeds from issuances of convertible notes, and proceeds from promissory notes issued to related parties and potential sales of Gen Sets.
- Management has instituted a cost control program intended to restrict variable costs requiring an outlay of cash to only those expenses that are necessary to carry out our activities related to research and development activities, entering the production phase of operations, developing additional commercially feasible applications of the CSRV[®] system technology, seeking additional sources of working capital and covering general and administrative costs in support of such activities.

We have significant immediate capital needs and our ability to raise funds on terms acceptable to us is highly uncertain.

We will need additional working capital from equity and/or financing transactions in the near future for a number of uses, including:

- Purchasing raw materials inventory and hiring plant workers to commence our production phase.
- Expanding manufacturing capacity.
- Developing an expanded management team to oversee the expanded scope of our operating activities upon commencement of production.
- Developing our engineering, administrative, marketing and sales organizations.
- Expanding our research and development programs with respect to the CSRV[®] system technology and applying the CSRV[®] system technology to engines used in various commercially viable applications.
- Implementation of new systems, processes and procedures to support growth.
- Ongoing general and administrative expenses.

Additional sources of working capital may not be available on terms acceptable to us or may not be available at all.

As with any business, many aspects of our operations and our future outlook are subject to events and influences which are not within our control. This could have an adverse impact on us and our results of operations. For example:

- Demand for our technology and products could be significantly reduced.
- Estimates used in the preparation of our financial statements may need to be revised.

Risk Factors Relating to Our Product Development:

Limited production and sales of CSRV[®] engine generators.

To date, we have had only minimal sales of CSRV[®] engine generators. We have not been able to move into the CSRV[®] engine generator production phase of our business because we have not been successful in raising sufficient new working capital.

We expect to continue to incur losses until we commence production and distribution of products incorporating our CSRV[®] system technology. We may not be profitable or operating cash flow positive in 2018 unless we can either begin to generate positive cash flows from sales of CSRV[®] Engine products or receive cash proceeds from new licensing agreements for our CSRV[®] system technology. In addition, we may not be profitable or operating cash flow positive for several additional years after 2018.

The Coates CSRV[®] System Technology may not have the performance characteristics and longevity that we expect which may adversely affect our future revenues.

The Coates Engine[®] has only been tested to a very limited degree in a “real world” environment. Commercial use of our industrial engines may not have the performance characteristics that we expect. Similarly, until the Coates Engine[®] has been in use for a substantial period of time, there is no certain way to ascertain its expected longevity. Superior performance and longevity are essential elements of our ability to penetrate the power generation and other markets. Our failure to do so would have a material adverse effect on our business and, unless remedied on a timely basis, we might be forced to close our operations.

Risk Factors Relating to Our Business:

Our Success Depends to a Large Extent on Our Founder George J. Coates and His Son Gregory G. Coates, the Loss of Either of Whom Could Disrupt Our Business Operations.

Our future success will depend in substantial part on the continued services of George J. Coates and, to a lesser extent, Gregory G. Coates. The loss of the services of George J. Coates and/or Gregory G. Coates could impede implementation of our business plan and reduce our opportunity for profitability. We expect that our future market capitalization will be highly dependent on the productivity of George J. Coates. If the employment of George J. Coates was to cease for any reason, our business would be materially adversely affected and we may have to discontinue operations. We do not have employment agreements in place with George J. Coates and Gregory G. Coates. Although George J. Coates is our majority shareholder and Gregory G. Coates is a major shareholder of the Company, a risk exists that they could voluntarily terminate their employment with us at any time and for any reason. In such case, either or both of them could establish one or more new businesses that might compete with ours. We do not maintain key person insurance on either George J. Coates or Gregory G. Coates.

We may encounter substantial competition in our business and our failure to compete may adversely affect our ability to generate revenue.

The power generation market is a highly competitive industry currently occupied by extremely large companies. These companies have far greater financial and other resources than we do and already occupy segments of the power generation market. In order to successfully penetrate this industry, the Coates Engine[®] will have to produce the performance and durability results anticipated by management and sell at a price that will enable it to effectively compete and gain entrance into this market.

Our Dependence on Third Party Suppliers for Key Components of Our Products Could Delay Shipment of Our Products and Reduce Our Sales.

We depend on certain domestic suppliers for the delivery of components used in the assembly of our products. Our reliance on third-party suppliers creates risks related to our potential inability to obtain an adequate supply of components or subassemblies, and reduced control over pricing and timing of delivery of components and sub-assemblies. Specifically, we depend on suppliers of short engine blocks, custom pistons, custom spherical rotary valves, valve seals, carriers, springs, value added services and other miscellaneous components and parts for our products. Any interruption of supply for any material components of our products could significantly delay the shipment of our products and have a material adverse effect on our revenues, profitability and financial condition.

We may be subject to claims with respect to the infringement of intellectual property rights of others, which could result in substantial costs and diversion of our financial and management resources to defend such claims and/or lawsuits and could harm our business.

We cannot be certain that our licensed rights to the patented engine designs and technologies will not infringe upon patents, copyrights or other intellectual property rights held by third parties. While we know of no basis for any claims of this type, the existence of and ownership of intellectual property can be difficult to verify and we have not made an exhaustive search of all patent filings. We may become subject to legal proceedings and claims from time-to-time relating to the intellectual property of others in the ordinary course of our business. If we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, and we may incur licensing fees or be forced to develop alternative technology or obtain other licenses. In addition, we may incur substantial expenses in defending against any third-party infringement claims and be diverted from devoting time to our business and operational issues, regardless of the merits of any such claim. Successful infringement or licensing claims against us may result in substantial monetary damages, which may materially disrupt the conduct of our business and have a material adverse effect on our reputation, business, financial condition and results of operations.

Our success is dependent on protecting our intellectual property rights.

We rely on a combination of patent, copyright, trademark and trade secret protections to protect our rights under our license to the proprietary technology. We cannot assure you that these trademarks and patents will not be challenged, invalidated, or circumvented, or that the rights granted under those registrations will provide competitive advantages to us.

In addition, there is currently no understanding in place regarding the ownership of new intellectual property not directly related to the CSRV[®] system technology developed by either George J. Coates or Gregory G. Coates while employed by us. As a result, there is a risk that we may not derive any benefit from such newly developed intellectual property.

In the event of insolvency or bankruptcy, the intellectual property rights licensed to us would automatically revert back to George J. Coates and Gregory G. Coates.

Under our license agreement for the CSRV[®] system technology, in the event of insolvency or bankruptcy, our intellectual property rights and our rights to license the intellectual property would automatically revert back to George J. Coates and Gregory G. Coates. This would result in a lower potential recovery of investment by, and/or liquidation value to, our stockholders.

We have very limited marketing and sales experience.

We have no marketing or sales experience. The sales process is expected to be lengthy, in part because of skepticism about the performance of the Coates Engine[®]. We are evaluating alternative marketing and sales channels, distributors, sublicensees and marketing partners. We may never successfully market and sell the Coates Engine[®].

We have only a small number of employees, and in order to grow our business we will need to hire significant additional personnel.

We need to hire, train and retain additional employees for all aspects of our business if we are to achieve our production and sales goals. Our success will also depend on our ability to attract and retain a staff of qualified managerial, engineering and manufacturing plant workers. Qualified individuals are in high demand and are often subject to competing offers. We cannot be certain that we will be able to attract and retain the qualified personnel we need for our business. If we are unable to hire additional personnel as needed, it would have a material adverse effect on our business and operations. In particular, we need trained engineers and sales personnel to educate potential customers and provide post-installation customer support.

As a publicly reporting company, we incur substantial expenses to comply with the reporting requirements which could have a detrimental effect on our business and finances, the value of our stock and the ability of stockholders to resell their stock.

Since we are subject to the information and reporting requirements pursuant to Section 15(d) of the Exchange Act, as well as other disclosure requirements such as the proxy rules, going private rules and many tender offer provisions, our stockholders will not have access to the short-swing reporting and profit receiving protections or information that is provided by beneficial ownership reporting requirements of the U.S. securities laws. Additional SEC regulations already in place have also substantially increased the accounting, legal, and other costs related to becoming and remaining a publicly reporting company. In the current regulatory environment, a trend has been established to continue to introduce additional regulations affecting financial markets and publicly reporting companies. There can be no assurance that new regulations introduced in the future, will not significantly increase the cost of compliance for publicly traded companies. If we do not meet the public company reporting requirements designed to make current information about our company available to market makers, they will not be able to trade our stock. In addition, if we do not comply with the public company reporting requirements, we will be in default of our convertible promissory notes, which provide for substantial penalties in such event and would likely have a material adverse effect on our financial condition and results of operations. The public company costs of preparing and filing annual and quarterly reports, making interactive reporting of our financial statement in XBRL format available to stockholders, providing other information to the SEC and furnishing audited reports to stockholders, cause our expenses to be higher than they would be if we were privately-held and not subject to public company reporting regulatory requirements. In addition, we may incur substantial expenses in connection with the preparation of registration statements required to be filed in connection with the registration of securities under the Securities Act of 1933. These increased costs may be material and may include the hiring of additional employees and/or the retention of additional advisors and professionals. Our failure to comply with federal securities laws could result in private or governmental legal action against us and/or our officers and directors, which could have a detrimental effect on our business and finances, the value of our common stock, and the ability of stockholders to resell their stock.

We may be exposed to potential risks, penalties and expenses resulting from the Sarbanes Oxley Act of 2002.

In addition to the costs of compliance with having our shares of common stock listed on the OTC Pink Sheets, there are substantial penalties that could be imposed upon us if we fail to comply with all regulatory requirements. In particular, under the Sarbanes-Oxley Act of 2002 we are required to include in our annual report our assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year.

We may become subject to product liability and/or warranty claims, which could harm our financial condition and liquidity if we are not able to successfully defend or insure against such claims.

We do not currently maintain product liability insurance for our CSRV[®] products. We intend to make a proper assessment of the product liability risk related to our products and we may apply for product liability insurance, to the extent believed necessary in the future and at such time that our working capital is sufficient for this purpose. Any lawsuit seeking significant monetary damages may have a material adverse effect on our business and financial condition. We may not be able to secure product liability insurance coverage on commercially acceptable terms or at reasonable costs when needed, particularly if we do face liability for our products and are forced to make a claim under our policy. In addition, a product liability claim could generate substantial negative publicity about our CSRV[®] products and business and inhibit or prevent commercialization of other future CSRV[®] products, which would have a material adverse effect on our brand, business, prospects, financial condition and operating results.

While our products are tested for quality, our products nevertheless may fail to meet customer expectations from time-to-time. Also, not all defects are immediately detectible. Failures could result from faulty design or problems in manufacturing. In either case, we could incur significant costs to repair and/or replace defective products under warranty. Liability claims could require us to spend significant time and money in litigation and pay significant damages. As a result, any of these claims, whether or not valid or successfully prosecuted, could have a substantial, adverse effect on our business and financial results. In addition, although we plan on putting product liability insurance in place, the amount of damages awarded against us in such a lawsuit may exceed the policy limits of such insurance. Further, in some cases, product redesigns and/or rework may be required to correct a defect, and such occurrences could adversely impact future business with affected customers. Our business, financial condition, results of operations and liquidity could be materially and adversely affected by any unexpected significant warranty costs.

Risk Factors Relating to Our Common Stock:

Our common stock is thinly traded, so you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares.

Our common stock has historically been sporadically or “thinly-traded” on the OTC Pink Sheets, meaning that the number of persons interested in purchasing our common stock at or near ask prices at any given time may be relatively small or nonexistent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. In addition, due to the current trading price range of our common stock many broker/dealers will not agree to honor sell orders or clear trades in our common stock. In this case, shareholders may be required to open a new brokerage account with one of the broker/dealers that is willing to honor sell orders in our common stock. There can be no assurance that such a broker/dealer would not impose higher commission rates on such sell orders than might be customary for more actively traded stocks trading in higher price ranges. It is also possible that the number of buyers in the market for our common stock could be reduced if a potential investor expects that the effort to sell shares of our common stock is too cumbersome.

As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a mature issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. It is possible that a broader or more active public trading market for our common stock will not develop or be sustained, or that current trading levels will continue.

Because we do not intend to pay dividends for the foreseeable future, stockholders will only benefit from an investment in our common stock if it appreciates in value.

We have never declared any dividends and our board of directors does not intend to declare and distribute dividends in the near future. The declaration, payment and amount of any future dividends will be made at the discretion of the board of directors and will depend upon, among other things, the results of our operations, cash flows, financial condition, operating and capital requirements, and other factors as the board of directors considers relevant. There is no assurance that future dividends will be paid, and, if dividends are paid, there is no assurance with respect to the amount of any such dividends. We currently intend to retain our future earnings, if any, to finance further research and development, commence production of the Coates Engine[®] and pay for our general and administrative expenses. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. There is no assurance that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

Because we will be subject to the “penny stock” rules if the shares are quoted on the OTC Pink Sheets, the level of trading activity in the shares may be reduced and shareholders may be unable to sell their shares.

The SEC has adopted regulations which generally define a “penny stock” to be any equity security that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities will likely be covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and accredited investors. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and other quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer’s account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer’s confirmation. In addition, the penny stock rules require that prior to executing a transaction in a penny stock not otherwise exempt from these rules; the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction. These disclosure and suitability requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in, and limit the marketability of, our capital stock. Trading of our capital stock may be restricted by the SEC’s “penny stock” regulations which may limit a stockholder’s ability to buy and sell our stock.

George J. Coates and his family own a majority of our common stock, allowing them to unilaterally determine the outcome of all matters submitted to our stockholders for approval, which influence may or may not conflict with our interests and the interests of our other stockholders.

George J. Coates, together with members of his family and related trusts, are beneficially entitled to approximately 88% of votes on matters submitted to a vote of the outstanding common stockholders at April 13, 2018, and will therefore be able to unilaterally determine the outcome of all matters submitted to our stockholders for approval, including the election of our directors and other corporate actions. There can be no assurance that the votes of George J. Coates and his family on matters submitted to a vote by our shareholders in the future will not conflict with our interests and the interest of our other shareholders.

You may be unable to sell your common stock at or above your purchase price, which may result in substantial losses to you.

The following factors may add to the volatility in the price of our common stock: actual or anticipated variations in our quarterly or annual operating results; government regulations, announcements of significant acquisitions, strategic partnerships or joint ventures; our capital commitments; dilution of stockholders’ interests through additional issuances of new shares of common stock; and additions or departures of our key personnel. Many of these factors are beyond our control and may decrease the market price of our common stock, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common stock will be at any time, including as to whether our common stock will sustain its current market price, or as to what effect the sale of shares or the availability of common stock for sale at any time will have on the prevailing market price.

Trading in our common stock may be volatile, which may result in substantial declines in its market price.

Our common stock is likely to experience significant volatility in response to periodic variations in:

- Our success in commencing our production phase of operations.
- Results of testing of the CSR[®] system technology as it is designed and adapted for various commercially feasible applications.
- Our prospects for entering into new potentially profitable license agreements for our technology.
- Performance of the CSR[®] system technology in the field.
- Improvements in engine technology by our competitors.
- Changes in general conditions in the economy or the financial markets.

The market may also experience significant volatility which can affect the market prices of securities issued by many companies; often for reasons unrelated to their operating performance and may adversely affect the price of our common stock. The market for our common stock is limited. We cannot assure that an active trading market can be maintained. In such case, our stockholders may find it difficult to dispose of shares of our common stock and, as a result, may suffer a loss of all or a substantial portion of their investment.

Our issuance of additional common stock in exchange for services or to repay debt would dilute your proportionate ownership and voting rights and could have a negative impact on the market price of our common stock.

Our board of directors may, from time to time, approve the issuance of shares of common stock to pay for debt or services, without further approval by our stockholders based upon such factors as our board may deem relevant at that time. As of April 13, 2018, we had approximately \$415,000 face amount of convertible debt outstanding. This debt, if not prepaid within 180 days after the date of the convertible note, is convertible into shares of our common stock at a 30% to 38% discount from the contractually defined trading price of our stock over a defined stock price measurement period which precedes the date of conversion. It is possible that we will issue additional securities to pay for services and reduce debt in the future.

Anti-dilution protection for George J. Coates, Gregory G. Coates and Barry C. Kaye, stock awards to our officers and directors and exercise of stock options will cause additional shares of our common stock to be issued which will dilute the ownership interest and share of dividends of existing shareholders.

We have granted stock options to officers, directors, consultants and advisers, which may be exercised and converted into shares of our common stock. In addition, we grant stock awards and provide for anti-dilution protection to key officers and directors which may be in the form of shares of common stock or instruments convertible into shares of common stock, including Series B Convertible Preferred Stock. At April 13, 2018, 281,378 shares of Series B Convertible Preferred Stock issued to key officers, which are also directors, each of which is convertible into 1,000 shares of common stock on the 2nd anniversary date after issuance, were issued and outstanding. The occurrence of these events will dilute the ownership interest and share of any dividends declared by the Company and could depress the market price of our common stock.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We own our executive offices and research and development facility, which is located in an approximately 29,000 square foot building on approximately 7 acres in Wall Township, New Jersey, approximately 60 miles outside of New York City.

We believe our current facilities are sufficient for our current needs and will be adequate, or that suitable additional or substitute space will be available on commercially reasonable terms, for the foreseeable future.

Item 3. Legal Proceedings.

We are currently not involved in any litigation that we believe could have a materially adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our company's or our company's subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

Item 4. Mine Safety Disclosure.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Market Information

Our common stock is traded on the OTC Pink Sheets under the ticker symbol COTE. The closing price of the common stock on April 13, 2018, was \$0.0095 per share. The high and low closing bid prices for trading of our stock for each of the quarters during 2017 and 2016, are as follows:

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
2017:				
High	\$ 0.140	\$ 0.090	\$ 0.120	\$ 0.095
Low	\$ 0.060	\$ 0.060	\$ 0.040	\$ 0.011
2016:				
High	\$ 0.880	\$ 0.440	\$ 0.380	\$ 0.016
Low	\$ 0.240	\$ 0.080	\$ 0.060	\$ 0.100

Upon the close of trading in our common stock on December 1, 2017, we effectuated a 1:200 reverse stock split, pursuant to which one new post-split share of common stock was issued in exchange for 200 old pre-split shares of common stock. The par value of the common stock of \$0.0001 per share did not change. The reverse stock split was approved by the board of directors, and by means of obtaining written consent from George J. Coates, sole majority stockholder, was approved by the shareholders.

(b) Holders

At April 13, 2018, the number of stockholders of record of our common stock was 730. Because shares of our common stock are held by depositaries, brokers and other nominees, the number of beneficial holders of our shares is substantially larger than the number of stockholders of record.

(c) Dividends

We have never declared or paid any cash dividends on shares of our common or preferred stock. We currently intend to retain earnings, if any, to fund the development and growth of our business and do not anticipate paying cash dividends in the foreseeable future. Our payment of any future dividends will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, cash needs and growth plans.

(d) Securities Authorized for Issuance under Equity Compensation Plan

2006 Stock Option and Incentive Plan

Our 2006 Stock Option and Incentive Plan (the "2006 Stock Plan") was adopted by our board of directors, and by consent of George J. Coates, majority stockholder, was adopted by our shareholders. The 2006 Stock Plan provides for the grant of stock-based awards to employees, officers and directors of, and consultants or advisors to, the Company and its subsidiaries. Under the 2006 Stock Plan, we may grant options that are intended to qualify as incentive stock options ("incentive stock options") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), options not intended to qualify as incentive stock options ("non-statutory options"), restricted stock and other stock-based awards. Incentive stock options may be granted only to our employees. A total of 12,500,000 shares of common stock may be issued upon the exercise of options or other awards granted under the 2006 Stock Plan. The maximum number of shares with respect to which awards may be granted in any calendar year to any employee under the 2006 Stock Plan shall not exceed 25% of the total number of shares authorized. All shares of common stock under this plan have been granted in the form of stock options.

2014 Stock Option and Incentive Plan

The Company established a 2014 Stock Option and Incentive Plan (the “2014 Stock Plan”) which was adopted by the Company’s board on May 30, 2014 and by our shareholders on February 27, 2015, by consent of George J. Coates in his capacity as the majority stockholder. The 2014 Stock Plan provides for the grant of stock-based awards to employees, officers and directors of, and consultants or advisors to, the Company and its subsidiaries, if any. Under the 2014 Stock Plan, the Company may grant ISO’s, non-statutory options, restricted stock and other stock-based awards. ISO’s may be granted only to employees of the Company. A total of 50,000,000 shares of common stock may be issued upon the exercise of options or other awards granted under the 2014 Stock Plan. The maximum number of shares with respect to which awards may be granted during any one year to any employee under the 2014 Stock Plan shall not exceed 25% of the 50,000,000 shares of common stock authorized by the 2014 Stock Plan. At December 31, 2017, none of the shares of common stock authorized under the 2014 Stock Plan had been granted.

The 2006 Stock Plan and the 2014 Stock Plan (the “Stock Plans”) are administered by the board and the Compensation Committee. Subject to the provisions of the Stock Plans, the board and the Compensation Committee each has the authority to select the persons to whom awards are granted and determine the terms of each award, including the number of shares of common stock subject to the award. Payment of the exercise price of an award may be made in cash, in a “cashless exercise” through a broker, or if the applicable stock option agreement permits, shares of common stock, or by any other method approved by the board or Compensation Committee. Unless otherwise permitted by the Company, awards are not assignable or transferable except by will or the laws of descent and distribution.

Upon the consummation of an acquisition of the business of the Company, by merger or otherwise, the board shall, as to outstanding awards (on the same basis or on different bases as the board shall specify), make appropriate provision for the continuation of such awards by the Company or the assumption of such awards by the surviving or acquiring entity and by substituting on an equitable basis for the shares then subject to such awards either (a) the consideration payable with respect to the outstanding shares of common stock in connection with the acquisition, (b) shares of stock of the surviving or acquiring corporation or (c) such other securities or other consideration as the board deems appropriate, the estimated fair market value of which (as determined by the board in its sole discretion) shall not materially differ from the estimated fair market value of the shares of common stock subject to such awards immediately preceding the acquisition. In addition to or in lieu of the foregoing, with respect to outstanding stock options, the board may, on the same basis or on different bases as the board shall specify, upon written notice to the affected optionees, provide that one or more options then outstanding must be exercised, in whole or in part, within a specified number of days of the date of such notice, at the end of which period such options shall terminate, or provide that one or more options then outstanding, in whole or in part, shall be terminated in exchange for a cash payment equal to the excess of the estimated fair market value (as determined by the board in its sole discretion) for the shares subject to such Options over the exercise price thereof. Unless otherwise determined by the board (on the same basis or on different bases as the board shall specify), any repurchase rights or other rights of the Company that relate to a stock option or other award shall continue to apply to consideration, including cash, that has been substituted, assumed or amended for a stock option or other award pursuant to these provisions. We may hold in escrow all or any portion of any such consideration in order to effectuate any continuing restrictions.

The board may at any time provide that any stock options shall become immediately exercisable in full or in part, that any restricted stock awards shall be free of some or all restrictions, or that any other stock-based awards may become exercisable in full or in part or free of some or all restrictions or conditions, or otherwise realizable in full or in part, as the case may be.

The board of directors or Compensation Committee may, in its sole discretion, amend, modify or terminate any award granted or made under the Stock Plan, so long as such amendment, modification or termination would not materially and adversely affect the participant.

The following table sets forth information with respect to our securities authorized for issuance as of April 13, 2018, under our 2006 and 2014 Stock Option and Incentive Plans:

	Number of securities to be issued upon exercise of outstanding options, rights and warrants (a)	Weighted average exercise price of outstanding options, rights and warrants (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity Compensation plans approved by security holders:	62,500	\$ 36.34	250,000
Equity Compensation plans without approval by security holders	None	N/A	N/A
Total	62,500	\$ 36.34	250,000

No stock options or other stock-based awards have been granted under the 2014 Stock Plan.

Transfer Agent and Registrar

American Stock Transfer & Trust Company is currently the transfer agent and registrar for our common stock. Its address is 6201 15th Avenue, Brooklyn, NY 11219. Its phone number is (800) 937-5449.

Recent Sales of Unregistered Securities

The following issuances of securities during the year ended December 31, 2017 were exempt from registration pursuant to Section 4(2), and Regulation D promulgated under the Securities Act. We made this determination based on the representations of the Investors which included, in pertinent part, that such Investors were “accredited investors” within the meaning of Rule 501 of Regulation D promulgated under the Securities Act, and that such Investors were acquiring our common stock, for investment purposes for their own respective accounts and not as nominees or agents, and not with a view to the resale or distribution thereof, and that the Investors understood that the shares of our common stock may not be sold or otherwise disposed of without registration under the Securities Act or an applicable exemption therefrom.

- In a series of transactions, an aggregate of \$769,000 principal amount of convertible promissory notes, including accrued interest was converted by the holders into 21,879,384 unregistered shares of our common stock.
- In May 2017, the Company issued 44,443 shares of stock to a lender as payment for interest due on a \$25,000 short term loan which was repaid in full. The amount of such interest was \$4,000.
- In February 2017, Barry C. Kaye converted 6.86 shares of Series B Convertible Preferred Stock into 6,860 restricted shares of common stock.

Rule 10B-18 Transactions

During the year ended December 31, 2017, there were no repurchases of the Company’s common stock by the Company.

Item 6. Selected Financial Data.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

THE FOLLOWING DISCUSSION OF OUR PLAN OF OPERATION AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND RELATED NOTES TO THE FINANCIAL STATEMENTS INCLUDED ELSEWHERE IN THIS REPORT. THIS DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT RELATE TO FUTURE EVENTS OR OUR FUTURE FINANCIAL PERFORMANCE. THESE STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE OUR ACTUAL RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, LEVELS OF ACTIVITY, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY THESE FORWARD-LOOKING STATEMENTS. THESE RISKS AND OTHER FACTORS INCLUDE, AMONG OTHERS, THOSE LISTED UNDER "FORWARD-LOOKING STATEMENTS" AND "RISK FACTORS" AND THOSE INCLUDED ELSEWHERE IN THIS REPORT.

Background

We have completed development of the Coates spherical rotary valve engine ("CSRVR[®]") system technology. This technology has been successfully applied to natural gas fueled industrial electric power CSRVR[®] generator engines ("Gen Sets"), automobile engines, residential generators and high-performance racing car engines. We have also designed and retrofitted the CSRVR[®] system technology into a diesel engine which is suitable for and can be applied to heavy trucks. Provided we can raise sufficient new working capital, we intend to devote a substantial amount of resources during the remainder of 2018 to develop Hydrogen Gen Sets, capable of producing up to 1MW of electrical power output.

We have completed production of an initial next generation 855 cubic inch industrial Gen Set. If we are able to raise sufficient new working capital, we intend to begin ramping up production for sales and distribution to end users. We have not sold any of these Gen Sets to date.

In February 2015, we granted a non-exclusive distribution sublicense to a China-based sales and distribution company that covers distribution in the territory of the Western Hemisphere. Under this sublicense, Renown will be permitted to sell, lease and distribute CSRVR[®] products. Renown intends to source CSRVR[®] products from Coates Power, Ltd., a China-based company formed for the purpose of manufacturing CSRVR[®] products ("Coates Power"). Coates Power has not been able to commence operations due to ongoing delays in obtaining necessary support and approval from the Chinese government in spite of continuing efforts by Renown to do so on its behalf. This has been and continues to be a long, arduous process because the government is addressing this at a very slow pace. We have only received, in prior years, an initial non-refundable deposit of \$500,000 towards this license. Until Coates Power can begin production of CSRVR[®] products for Renown, we will not receive any further monies from our sublicense with Renown.

At this time, as our intellectual property rights only cover the territory of North America, we do not have any rights to enter into a manufacturing and sale license agreement with Coates Power. These rights are currently held by George J. Coates, Gregory G. Coates and The Coates Trust, a trust controlled by George J. Coates. Coates Power and Renown are controlled and managed by Mr. James Pang, the Company's liaison agent in China.

Independent testing on internal combustion engines incorporating the CSRVR[®] system technology indicated the following advantages would be derived from this technology:

- Better fuel efficiency
- Reduced harmful emissions

Based on more than ten years of operating a Mercedes 300 with an SE 280 engine retrofitted with the CSRVR[®] system technology, the following advantages were demonstrated:

- Longer intervals between engine servicing, and
- Longer engine life than conventional internal combustion engines.

We continue to be engaged in new research and development activities from time-to-time in connection with applying this technology to other commercially feasible internal combustion engine applications and intend to manufacture engines and/or license the CSRVR[®] system technology to third party Original Equipment Manufacturers ("OEM's") for multiple other applications and uses.

George J. Coates has developed a hydrogen reactor which rearranges H₂O water molecules into HOH molecules also known as Hydroxy-Gas. Hydroxy-Gas has a different molecular structure than hydrogen gas. It consists of two hydrogen atoms. The Hydroxy-Gas produced by the hydrogen reactor can then be harvested for use as a type of gas. Mr. Coates intends to continue with development of this technology to enable the harvested Hydroxy-Gas to be utilized as the fuel source to power our patented CSR[®]V engines. We are exploring opportunities with certain third parties to further develop this technology with the objective of bringing it to market. The next phase of this research and development will focus on powering larger, industrial engines. If successful, this application will only require a ready supply of water and would be suitable for stationary engines and generators. Conventional internal combustion engines employing poppet valve assemblies require lubrication and would experience excessive heat and friction if powered with Hydroxy-Gas. This, in turn, would cause the engines to burn out in a rather short period of time. The materials and components of the CSR[®]V engines do not require such lubrication and because of their design, are able to operate relatively trouble-free on Hydroxy-Gas as the engine fuel. There can be no assurance that this technology can be developed successfully, or that if developed, it will be feasible to penetrate the internal combustion engine market with this technology.

Applications for patent protection of this technology would be filed upon completion of the research and development. Although at this time no arrangements have been made between us and George J. Coates, owner of the technology, regarding licensing of the hydrogen reactor, Mr. Coates has provided his commitment to license this technology to us once the related patent protection is in place. Accordingly, we do not currently have any rights to manufacture, use, sell and distribute the hydrogen reactor technology, should it become commercially feasible to manufacture and distribute products powered by the Hydroxy-Gas fuel. We have been responsible for all costs incurred to date related to the development of this technology.

Plan of Operation

Manufacturing, Sales and Distribution

We have completed development of the CSR[®]V system technology-based generator engine and during 2016 completed retrofitting a next generation Cummins industrial engine with our CSR[®]V engine technology. This unit is being used to attract new licensing transactions and other manufacturing activities. We will need to raise sufficient new working capital to ramp up our own manufacturing and distribution operations.

As discussed above, we plan to primarily devote our resources for the remainder of 2018 to further development of CSR[®]V Hydrogen Gen Sets.

We intend to take advantage of the fact that essentially all the parts and components of the CSR[®]V generator engine may be readily sourced and acquired from U.S. based suppliers and subcontractors, and, accordingly, expect to manufacture Gen Sets by developing assembly lines within owned manufacturing facilities. The initial limited production will enable us to prove our concept for the CSR[®]V system technology and we expect this will dovetail with the existing demand in the marketplace. We plan to address this demand by establishing large scale manufacturing operations in the United States. Transitioning to large scale manufacturing is expected to require a substantial increase in our work force, securing additional manufacturing capacity and substantial capital expenditures.

Our ability to establish such manufacturing operations, recruit plant workers, finance initial manufacturing inventories and fund capital expenditures is highly dependent on our ability to successfully raise substantial new working capital in an amount and at a pace which matches our business plans. Potential sources of such new working capital include (i) licensing fees from new sublicensing agreements, (ii) positive working capital generated from sales of our CSR[®]V products and (iii) issuance of promissory notes to related parties and issuance of convertible notes. Although we have been successful in raising sufficient working capital to continue our ongoing operations, we have encountered very challenging credit and equity investment markets and have not been able to raise sufficient new working capital to enable us to commence production of our Gen Sets. There can be no assurance that we will be successful in raising adequate new working capital or even any new working capital to carry out our business plans.

Sublicensing

We plan to sublicense the CSRV[®] system technology to multiple OEM's in order to take advantage of third party manufacturers' existing production capacity and resources by entering into OEM agreements.

Significant Estimates

The preparation of our financial statements in conformity with generally accepted accounting principles in the United States ("GAAP") requires our management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. These significant estimates include determining the fair value of convertible promissory notes containing embedded derivatives as a result of variable conversion rate provisions, determining a value for Series A Preferred Stock and Series B Convertible Preferred Stock issued in connection with anti-dilution provisions in place, assigning useful lives to our property, plant and equipment, determining an appropriate amount to reserve for obsolete and slow moving inventory, providing a valuation allowance for deferred tax assets, assigning expected lives to and estimating the rate of forfeitures of stock options granted and selecting a volatility factor for the Company's stock options in order to estimate the fair value of the Company's stock options on the date of grant. Actual results could differ from those estimates.

Results of Operations for the Years Ended December 31, 2017 and 2016

Our principal business activities and efforts during 2017 and 2016 were devoted to (i) undertaking efforts to raise additional working capital in order to fund ongoing operations, (ii) seeking out new opportunities for licensing the CSRV[®] system technology and products, (iii) retrofitting a Cummins next generation industrial natural gas engine with our CSRV[®] engine technology and (iv) research and development of the hydrogen reactor technology.

Although we incurred substantial net losses for the years ended December 31, 2017 and 2016 of (\$8,386,120) and (\$8,356,092), respectively, it is important to consider that a substantial portion of these losses resulted from non-cash expenses required to be recorded for financial reporting purposes in accordance with GAAP. These net losses should be considered in view of the fact that actual cash used in operating activities amounting to (\$765,361) and (\$494,125) in 2017 and 2016, respectively, was significantly less than these reported net losses. The differences between the reported net losses and actual cash used in operating activities in 2017 and 2016 are described in detail in the section "Liquidity and Capital Resources".

Revenue

There were no sales in 2017 and 2016.

Sublicensing fee revenue for the years ended December 31, 2017 and 2016 amounted to \$19,200 and \$29,200, respectively. Sublicensing fees are being recognized by amortizing a license deposit of \$300,000 over the approximate remaining life of the last CSRV[®] technology patent in force.

Expenses

Research and Development Expenses

Research and development activities in 2017 and 2016 were primarily related to retrofitting a Cummins next generation industrial natural gas engine with our CSRV[®] engine technology, the hydrogen reactor project and continuing development of production parts and components for CSRV[®] Industrial Gen Sets. Research and development expenses increased by \$39,366 or 16.1% to \$284,243 in 2017 from \$244,877 in 2016. This net increase is primarily due to (i) a \$128,994 increase in parts and materials charged to research and development in 2017, partially offset by an (\$89,400) decrease in the amount of compensation and benefits allocated to research and development activities.

Stock-based Compensation Expense

Stock-based compensation expense decreased by (\$1,198,888) to \$5,676,626 in 2017 from \$6,875,514 in 2016. For the year ended December 31, 2017, on a pro forma basis after adjusting for the 1:200 reverse stock split, 3,351 shares of Series A Preferred Stock with an estimated fair value of \$17,000, were issued to George J. Coates, representing anti-dilution shares to restore Mr. Coates' percentage of eligible votes to 85.7%. For the years ended December 31, 2017 and 2016, on a pro forma basis after adjusting for the 1:200 reverse stock split, a total of 147,215 and 64,389 shares, respectively, of Series B Convertible Preferred Stock with an estimated fair value of \$5,653,896 and \$6,808,480, respectively, were issued for anti-dilution to George J. Coates, Gregory G. Coates and Barry C. Kaye. In spite of the increase in the number of shares issued for anti-dilution, stock-based compensation expense decreased due to the lower trading price range of the Company's common stock price during 2017, as compared to 2016.

Compensation and Benefits

Compensation and benefits decreased by (\$1,902) to \$448,320 in 2017 from \$450,222 in 2016. This primarily decreased due to a (\$79,485) decrease related to the retirement of an employee whose position was not replaced and an employee that was on unpaid leave during 2017, an \$89,400 reduction in compensation and benefits allocated to research and development expenses and other decreases amounting to (\$11,835).

General and Administrative Expenses

General and administrative expenses decreased by (\$80,155) to \$323,098 in 2017 from \$403,253 in 2016. The net decrease in 2017 was primarily related to decreases in legal and professional fees of (\$72,776), investor relations costs of (\$17,911), patent maintenance costs of (\$6,992), parts expenses of (\$3,315), repairs and maintenance of (\$1,720) and miscellaneous income and expenses of (\$1,573), partially offset by increases in financing costs of \$16,671, building expenses of \$2,521, purchase discounts of \$1,524, utilities of \$1,460, property taxes of \$1,360 and a net increase in all other expenses of \$596.

In order to preserve our working capital, George J. Coates, Gregory G. Coates and Barry C. Kaye have voluntarily agreed to defer payment of their compensation. As of April 13, 2018, the amount of their unpaid, deferred compensation amounted to \$1,293,000, \$64,000, and \$257,000, respectively. This deferred compensation is intended to be paid when we are successful in our efforts to raise sufficient new working capital.

Depreciation and Amortization

Depreciation and amortization expense increased to \$48,995 in 2017 from \$48,370 in 2016.

Loss from Operations

A loss from operations of (\$6,762,082) was incurred in 2017 compared with a loss from operations of (\$7,993,036) in 2016. This decrease in loss was primarily due to the lower amount stock-based compensation expense incurred in 2017.

Other Expense

Increase in Estimated Fair Value of Embedded Liabilities

The estimated fair value of embedded liabilities, which relates to outstanding convertible promissory notes, is remeasured at each balance sheet date. For the years ended December 31, 2017 and 2016, other income (expense) was recorded to reflect the (increase) decrease in the fair value of embedded liabilities of (\$205,524) and \$479,455, respectively.

Loss on conversion of convertible notes

For the years ended December 31, 2017 and 2016, the Company realized losses on conversion of convertible notes of (\$264,474) and (\$143,418), respectively.

Interest Expense

Interest expense increased to \$1,154,040 in 2017 from \$699,093 in 2016. Interest expense in 2017 consisted of non-cash interest related to convertible promissory notes of \$763,509, interest on promissory notes to related parties of \$271,105, mortgage loan interest of \$99,356, and net other interest of \$20,070. Interest expense in 2016 consisted of non-cash interest related to convertible promissory notes of \$296,130, interest on promissory notes to related parties of \$292,702, mortgage loan interest of \$95,234, and net other interest of \$15,027.

Deferred Taxes

In 2017 and 2016, the change in deferred taxes was fully offset by a valuation allowance, resulting in a \$-0- net income tax provision.

Net Loss

For the year ended December 31, 2017, we incurred a net loss of (\$8,386,120) or (\$0.81) per share, as compared with net loss of (\$8,356,092) or (\$0.35) per share for 2016. The loss per share amounts were determined on a pro forma basis, which assumed that the reverse stock split had occurred on January 1, 2016. Included in the net losses for the years ended December 31, 2017 and 2016 was \$7,176,953 and \$7,229,801, respectively, of non-cash expenses, net of non-cash revenues.

Liquidity and Capital Resources

Our cash position at December 31, 2017 was \$6,807, a decrease of \$2,356 from our cash position of \$9,163 at December 31, 2016. We had a working capital deficit of (\$7,466,999) at December 31, 2017, which represents an increase of \$2,055,888 compared to the (\$5,411,111) of negative working capital at December 31, 2016. Our current liabilities of \$7,578,024 at December 31, 2017, increased by \$1,919,240 from \$5,658,784 at December 31, 2016. This net increase resulted from (i) reclassification of \$1,213,158 of our mortgage loan from non-current liabilities to current liabilities because the mortgage loan matures in July 2018, (ii) a \$349,005 increase in deferred compensation payable, (iii) a \$205,524 increase in the derivative liability related to convertible promissory notes, (iv) an \$82,828 increase in accounts payable and accrued liabilities, (v) a \$51,015 increase in the carrying amount of convertible notes, net of unamortized discount and (vi) a \$17,710 increase in promissory notes to related parties.

The major outlays of cash during the years ended December 31, 2017 and 2016 were for repayments of principal and interest on the mortgage loan, repayments of loans from related parties, patent maintenance expenses, employee compensation and benefits, legal and professional fees, property taxes, financing costs, investors relations expenses and other general and administrative expenses.

Net Cash Flows Used in Operating Activities

Operating activities utilized cash of (\$765,361) for the year ended December 31, 2017, an increase of \$231,236 from the cash utilized for operating activities of (\$494,125) for the year ended December 31, 2016. Cash utilized by operating activities in the year ended December 31, 2017, resulted from (i) a cash basis net loss of (\$1,209,167), (after adding back non-cash stock-based compensation expense of \$5,676,626, non-cash interest expense of \$1,000,534, a non-cash loss on conversion of convertible notes of \$264,474, a non-cash decrease in embedded derivative liabilities related to convertible notes of \$205,524 and depreciation and amortization of \$48,995, partially offset by recognition of non-cash licensing revenues of (\$19,200)); and (ii) a decrease in inventory of \$87,872, a decrease in other assets of \$3,477, an increase of \$3,452 in accounts payable and accrued liabilities and an increase in deferred compensation payable of \$349,005.

Net Cash Used in Investing Activities

No cash was used for investing activities for the year ended December 31, 2017. For the year ended December 31, 2016, cash utilized for investing activities consisted of \$11,493 for the acquisition of property, plant and equipment.

Net Cash Provided by Financing Activities

Cash generated from financing activities amounted to \$763,005 in 2017. This was comprised of issuances of convertible promissory notes aggregating \$810,050, issuances of promissory notes to related parties of \$102,011 and cash received in 2017 of \$42,944 from sales in 2016 of common stock under an equity purchase agreement with Southridge Partners II LP, partially offset by repayments of promissory notes held by related parties of (\$132,000) and principal repayments of (\$60,000) on the mortgage loan payable.

Going Concern

We have incurred net recurring losses since inception, resulting in an accumulated deficit amounting to (\$73,713,210) as of December 31, 2017, and had a stockholders' deficiency of (\$6,009,408). We will need to obtain additional working capital in order to continue to cover our ongoing cash expenses.

These factors raise substantial doubt about our ability to continue as a going concern. In addition, the current economic environment, which is characterized by tight credit markets, investor uncertainty about how to safely invest funds and low investor confidence, has introduced additional risk and difficulty to our challenge to secure needed additional working capital. Our Independent Registered Public Accountants have stated in their Auditor's Report dated April 17, 2018 with respect to our financial statements as of and for the year ended December 31, 2017 that these circumstances raise substantial doubt about our ability to continue as a going concern.

During 2017, we restricted variable costs to only those expenses that are necessary to perform activities related to efforts to negotiate sublicenses of our CSRV[®] products, raising working capital to enable us to commence production of our CSRV[®] system technology products, research and development and general administrative costs in support of such activities.

During the years ended December 31, 2017 and 2016, we raised \$955,005 and \$642,199, respectively, of new working capital from issuances of convertible promissory notes, issuances of promissory notes to related parties and cash received from sales of registered shares common stock under an equity purchase agreement in 2016. The proceeds were used for general working capital purposes.

Our financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Sources of working capital and new funding being pursued by us include (i) issuances of convertible promissory notes, (ii) sublicensing fees from prospective new sublicensees, (iii) manufacturing and sales of CSRV[®] Units, (iv) issuances of additional promissory notes to related parties and (v) sales of common stock and warrants. There can be no assurance that we will be successful in securing any of these sources of additional funding. In this event, we may be required to substantially or completely curtail our operations, which could have a material adverse affect on our operations and financial condition.

At December 31, 2017, current liabilities were comprised of deferred compensation of \$1,621,322, promissory notes due to related parties aggregating \$1,472,409, legal and professional fees of \$1,426,731, a mortgage loan amounting to \$1,273,158, accrued interest payable of \$582,052, accrued general and administrative expenses of \$420,361, an embedded derivative liability related to convertible promissory notes of \$358,996, deposits on orders of \$150,595, accrued research and development expenses of \$114,859, convertible promissory notes, net of unamortized discount of \$96,816 and current portion of license deposits of \$60,725.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments at December 31, 2017, all of which are payable during the year ended December 31, 2018:

Deferred compensation	\$ 1,621,322
Promissory notes to related parties	1,472,409
Mortgage loan payable	1,273,158
Convertible promissory notes	186,444
Total	<u>\$ 4,553,333</u>

Critical Accounting Policies

The Company's significant accounting policies are presented in the Company's notes to financial statements for the period ended December 31, 2017 which are contained in this filing, the Company's 2017 Annual Report on Form 10-K. The significant accounting policies that are most critical and aid in fully understanding and evaluating the reported financial results include the following:

The Company prepares its financial statements in conformity with generally accepted accounting principles in the United States of America. These principals require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that these estimates are reasonable and have been discussed with the Board of Directors; however, actual results could differ from those estimates.

Long-lived assets such as property, equipment and identifiable intangibles are reviewed for impairment whenever facts and circumstances indicate that the carrying value may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. The fair value is determined based on estimates of future cash flows, market value of similar assets, if available, or independent appraisals, if required. If the carrying amount of the long-lived asset is not recoverable from its undiscounted cash flows, an impairment loss is recognized for the difference between the carrying amount and fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risk associated with the recovery of the assets. We did not recognize any impairment losses for any periods presented.

Other significant estimates include determining the fair value of convertible promissory notes containing embedded derivatives and variable conversion rates, determining a value for Series A Preferred Stock and Series B Convertible Preferred Stock issued related to anti-dilution rights granted to George J. Coates, Gregory G. Coates and Barry C. Kaye, assigning useful lives to the Company's property, plant and equipment, determining an appropriate amount to reserve for obsolete and slow moving inventory, estimating a valuation allowance for deferred tax assets, assigning expected lives to, and estimating the rate of forfeitures of, stock options granted and selecting a trading price volatility factor for the Company's common stock in order to estimate the fair value of the Company's stock options on the date of grant or other appropriate measurement date. Actual results could differ from those estimates.

New Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled to when products are transferred to customers. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date, which defers the effective date of ASU 2014-09 for one year and permits early adoption. Accordingly, the Company may adopt the standard in either its first quarter of 2018 or 2019.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing ("ASU 2016-10"), which amends the guidance in ASU 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property. The Company will adopt ASU 2016-10 with ASU 2014-09. The Company is currently evaluating the impact of adopting the new revenue recognition standard, as amended, but does not expect it to have a material impact on its financial statements.

Stock Compensation

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718), which simplified certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification in the statement of cash flows. ASU 2016-09 will be effective for the Company beginning in its first quarter of 2018. The Company is currently evaluating the impact of adopting the new stock compensation standard but does not expect it to have a material impact on its financial statements.

Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10) ("ASU 2016-01"), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Company beginning in its first quarter of 2019. The Company does not believe the adoption of the new financial instruments standard will have a material impact on its financial statements.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 8. Financial Statements and Supplementary Data.

Our financial statements are contained in pages F-1 through F-30 which appear at the end of this Annual Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There have been no changes in or disagreements with accountants on accounting and financial disclosure.

Item 9A. Controls and Procedures.**(a) Evaluation of Disclosure Controls and Procedures**

Pursuant to Rule 13a-15(b) under the 1934 Act, the Company carried out an evaluation, with the participation of our management, including the Company's Chief Executive Officer ("CEO") (the Company's principal executive officer) and Chief Financial Officer ("CFO") (the Company's principal financial and accounting officer), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control over Financial Reporting.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Our internal control system was designed to, in general, provide reasonable assurance to the Company's management and board regarding the preparation and fair presentation of published financial statements, but because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. The framework used by management in making that assessment was the criteria set forth in the document entitled "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, our management has determined that as of December 31, 2017, the Company's internal control over financial reporting was effective for the purposes for which it is intended.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm as we are a smaller reporting company and are not required to provide the report.

(c) Changes in Internal Controls over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the fourth quarter of the fiscal year ended December 31, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Executive Officers and Directors

The following table lists the current members of our board of directors and our executive officers as of April 17, 2018. Our directors hold office until their successors have been duly elected and qualified. Mr. Glenn Crocker was elected to the board on April 9, 2018 to fill a vacancy that arose from the resignation of Jack Perkowski on March 31, 2018. Executive officers are elected by the Board of Directors and serve at the discretion of the directors. The address for our directors is c/o Coates International, Ltd., Highway 34 & Ridgewood Road, Wall Township, New Jersey 07719. The board of directors did not meet during the year ended December 31, 2017.

<u>Name</u>	<u>Age</u>	<u>Position</u>
George J. Coates	78	Director, Chairman of the Board, Chief Executive Officer and President
Gregory G. Coates	47	Director, Secretary and President, Technology Division
Barry C. Kaye	64	Director, Treasurer and Chief Financial Officer
Dr. Frank Adipietro	60	Director *, **
Richard Whitworth	69	Director *, **
Glenn Crocker	69	Director *, ***

* Serves as an independent director.

** Serves as a member of our compensation committee.

*** Serves as a member of our audit committee.

Set forth below is a brief description of the background and business experience of each of our executive officers and directors:

George J. Coates is our founder and, with the exception of a short period of time of less than one year, has served from the inception of the Company as a director, Chairman of the Board of Directors, President and Chief Executive Officer. Mr. Coates is also the majority stockholder.

George J. Coates has served two apprenticeships in Europe while attending the College of Technology in London, and as an associate member of the Society of Automotive Engineers ("SAE") where he received The City and Guilds of London for electrical and mechanical engineering. He is a former management director of SCR Motor Engineers of Europe and holds the certificate of Ministry of Transport in the United Kingdom. He worked as an engineer for Rolls Royce and Mercedes Benz, BLMC, Austin, and D. Napier. He holds approximately 300 patents worldwide on innovations and technologies, including the CSRV[®] system technology and a turbine engine, among others. He invented coolant disc brakes and a hydraulic suspension. Mr. Coates is a licensed inspector of the New Jersey Motor Vehicle Commission.

He has delivered lectures and presentations at:

- RWTH Aachen University, Aachen, Germany
- University of Birmingham, Birmingham, England
- Rutgers University, Newark, New Jersey, USA.

He is a member of the American Society of Mechanical Engineers and SAE. He received awards in 1995 for achievement in designs in automotive engineering from the SAE. He also received awards in 2001 for outstanding achievements in Mechanical Engineering from the American Society of Mechanical Engineers. Mr. Coates has extensive experience in international corporate business and has developed many longtime associates and contacts in the business and scientific communities around the world.

Gregory G. Coates became a director of the Company in October 2006, and had served as the Chairman of our Board of Directors until March 2007. In October 2006, he became our President – Technology Division. For more than thirty years, Gregory G. Coates has worked with us as a design engineer, working in research and development, designing and building the CSR^V® system technology and adapting this technology to various existing applications. He created some of our licensed inventions, some of which have been patented. Gregory G. Coates is an Associate Member of the Society of Automotive Engineers, Inc., and a Member of the American Society of Mechanical Engineers. He graduated from the College of Technology in Ireland. He invented and patented the Multi Sequential Fuel Management System[®], a vital component of our CSR^V® engines and also holds patents on other innovative technologies.

Barry C. Kaye became a director of the Company in October 2006 and has been serving as our Treasurer and Chief Financial Officer since October 2006. Mr. Kaye is a Certified Public Accountant in both New York and New Jersey. Mr. Kaye served as Vice President, Finance from 2009 to 2010 for Results Media, LLC, a company that provided direct mail marketing services. From 2006 to 2009, Mr. Kaye served as Vice President, Finance and Operations for Corporate Subscription Management Services, LLC, a company that processes orders as agent for various publishers. Since 1999, he has been serving as an Executive Business Consultant with BCK Business Consulting which provides various business consulting services to the business community. From 2004 to 2005, Mr. Kaye served as Corporate Controller of Development Corporation for Israel, a registered broker-dealer that distributes bonds of the government of Israel. He was the Vice President, Finance & Operations for Alliance Corner Distributors, Inc., a company engaged in sales and distribution of video games and other forms of digital entertainment media from 2003 to 2004. From 1987 to 1999, he served as Group Vice President, Finance at Sharp Electronics Corporation, a \$3.5 billion company engaged in sales and distribution of consumer electronics, office equipment products and microelectronic components, where he was responsible for all finance and “back office” operations. From 1976 to 1987, Mr. Kaye worked for Arthur Andersen & Co. where he achieved the position of Senior Audit Manager. He is a member of the American Institute of Certified Public Accountants as well as a member of the New York and New Jersey State Societies of Certified Public Accountants. Mr. Kaye received his Bachelor of Science in Accounting degree, graduating with Cum Laude distinction from Brooklyn College of the City University of New York.

Dr. Frank J. Adipietro became a director of the Company in October 2006. Dr. Adipietro earned an M.D. degree from SUNY Downstate Medical School, Brooklyn, New York. He has also earned a Bachelor of Science degree from New York University, graduating with Phi Beta Kappa and Magna Cum Laude distinction. He has been practicing in the area of anesthesia and interventional pain management for more than thirty years. He serves as President of the Medical Staff at Eastern Long Island Hospital in Greenport, New York since 2009 and serves on numerous hospital committees as well. He has been Vice Chairman of the Board of Trustees since 1999. He was affiliated with Lenox Hill Hospital, New York, NY for more than twelve years in the field of Cardiothoracic Anesthesia.

Richard Whitworth became a director of the Company in October 2006. Mr. Whitworth earned a Bachelor of Science degree from the University of Florida and has completed extensive post-graduate coursework and seminars in Law, Public Administration, Health Policy, Finance, Criminal Justice, Social Work and Education. He has been serving as the president of the Whitworth Group Inc. for more than the past 20 years. The Whitworth Group specializes in governmental and public relations, organizational development and financial services. Prior to that, he was the Director for the DWI Program Office for the Florida Supreme Court from 1979 to 1987. From 1976 to 1978 he was the Director of Prevention for the Florida Association Drug Abuse Treatment and Education Centers, Inc. From 1974 to 1976 he served as Specialist, Health and Mental Health, Aging Program Office for the Department of Health and Rehabilitation Services. Prior to that, he was the Director of Prevention for the Drug Abuse Program under the direction of the Department of Health and Rehabilitation Services.

Glenn Crocker rejoined the Company’s board of directors on April 10, 2018. He previously served on the board of directors during the period from October 2007 to June 2009. Mr. Crocker earned an MBA degree in Engineering Design has been working for most of the past thirty five years as a designer and design engineer with various vehicle manufacturers including Ford Motor Company, British Leyland, Mercedes Benz, Volvo Cars, Saturn GM, and BMW, among others.

Family Relationships

George J. Coates is the father of Gregory G. Coates. Bernadette Coates, the spouse of George J. Coates, was employed with the Company until 2016 and has from time to time provided working capital loans to the Company. No other family relationships exist between the directors and executive officers of the Company.

Board Committees

Our board of directors established an audit committee and a compensation committee in October 2006. All of the members of each of these standing committees are independent as defined under NASDAQ rules and, in the case of the audit committee, the independence requirements contemplated by Rule 10A-3 under the Securities Exchange Act.

Audit Committee

Effective March 31, 2018, Jack Perkowski tendered his resignation from the board of directors and the audit committee because his current commitments to other activities would prevent him from devoting sufficient time to fulfilling his responsibilities as a board member and Chairperson of the Audit Committee. In addition, Richard Whitworth was required to resign his position as a member of the Audit Committee because his independence became compromised when he and the Company entered into a compensatory arrangement in connection with identifying new prospective business opportunities for the Company. Effective April 9, 2018, Glenn Crocker was appointed as the sole member and Chairperson of the Audit Committee. The audit committee's responsibilities include: appointing, approving the compensation of, and assessing the independence of our independent auditor; overseeing the work of our independent auditor, including through the receipt and consideration of reports from the independent auditor; reviewing and discussing with management and our independent auditor our annual and quarterly financial statements and related disclosures; monitoring our internal control over financial reporting, disclosure controls and procedures, and code of business conduct and ethics; discussing our risk management policies; establishing policies regarding hiring employees from our independent auditor and procedures for the receipt and retention of accounting related complaints and concerns; communicating independently with our independent auditor and management; and preparing the audit committee report required by SEC rules to be included in our proxy statements, if any.

All audit services and all non-audit services, except de minimis non-audit services, must be approved in advance by the audit committee.

Our board of directors has determined that it does not have a member of its audit committee that qualifies as an "audit committee financial expert" as defined in Item 407(d)(5)(ii) of Regulation S-K and is "independent" as the term is used in Item 7(d)(3)(iv) of Schedule 14A under the Securities Exchange Act of 1934, as amended. We have not been able to identify a qualified audit committee financial expert to serve in such capacity.

During each of the years ended December 31, 2017 and 2016, the Audit Committee held four audit committee meetings. In connection with the audits of our financial statements as of and for the years ended December 31, 2017 and 2016 by MSPC, our Independent Public Accounting Firm, our audit committee has communicated with MSPC regarding the matters required to be discussed by the Statement on Auditing Standards No. 61 as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T. In addition, the audit committee has received the written disclosures and the letter from MSPC for those respective years required by Independence Standards Board Standard No. 1, as adopted by the PCAOB in Rule 3600T and has discussed with MSPC their independence for those respective years.

The audit committee has reviewed and discussed our audited financial statements as of and for each of the two years ended December 31, 2017 and 2016, with management, and based on this review and discussion has recommended to the board of directors that such audited financial statements be included in this annual report on Form 10-K for filing with the Securities and Exchange Commission.

Compensation Committee

Dr. Frank J. Adipietro and Richard Whitworth serve on the compensation committee. The compensation committee's responsibilities include:

- annually reviewing and approving corporate goals and objectives relevant to compensation of our chief executive officer;
- determining the compensation of our chief executive officer;
- reviewing and approving, or making recommendations to our board of directors with respect to the compensation of our other executive officers;

- overseeing an evaluation of our senior executives;
- overseeing and administering our cash and equity incentive plans; and
- reviewing and making recommendations to our board with respect to director compensation.

The Compensation Committee did not meet during the years ended December 31, 2017 and 2016. There were no changes to any executive's compensation during this period.

Corporate Governance

We believe that good corporate governance is important to ensure that, as a public company, we will manage for the long-term benefit of our stockholders. In that regard, we have established and adopted charters for the audit committee and compensation committee, as well as a code of business conduct and ethics applicable to all of our directors, officers and employees.

Compensation Committee Interlocks and Insider Participation

George J. Coates, Gregory G. Coates and Barry C. Kaye are executive officers and members of our board of directors. None of our executive officers serves as a member of our compensation committee, audit committee or other committee serving an equivalent function. None of the current members of the compensation committee of our board have ever been employed by us.

Liability Limitations and Indemnification

The following description is intended as a summary only and is qualified in its entirety by reference to our amended and restated certificate of incorporation and amended and restated by-laws incorporated by reference as exhibits into this report. We refer in this section to our amended and restated certificate of incorporation as our certificate of incorporation, and we refer to our amended and restated by-laws as our by-laws.

Our certificate of incorporation and by-laws limit the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for:

- any breach of their duty of loyalty to the corporation or its stockholders;
- acts or omissions that are not in good faith or that involve intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions; or
- any transaction from which a director derived an improper personal benefit.

The limitations do not apply to liabilities arising under the federal securities laws and do not affect the availability of equitable remedies, including injunctive relief or rescission.

Our certificate of incorporation and by-laws provide that we will indemnify our directors and officers, and may indemnify other employees and agents, to the maximum extent permitted by law. We believe that indemnification under our by-laws covers at least negligence and gross negligence on the part of indemnified parties. Our by-laws also permit us to secure insurance on behalf of any officer, director, employee or agent for any liability arising out of actions taken in his or her capacity as an officer, director, employee or agent, regardless of whether the by-laws would permit indemnification.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons under our certificate of incorporation or by-laws or the indemnification agreements we have entered into with our directors and officers, we have been advised that in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Legal Proceedings

To the best of our knowledge, none of our directors or executive officers has, during the past ten years:

- been convicted in a criminal proceeding or been subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
- had any bankruptcy petition filed by or against the business or property of the person, or of any partnership, corporation or business association of which he was a general partner or executive officer, either at the time of the bankruptcy filing or within two years prior to that time;
- been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction or federal or state authority, permanently or temporarily enjoining, barring, suspending or otherwise limiting, his involvement in any type of business, securities, futures, commodities, investment, banking, savings and loan, or insurance activities, or to be associated with persons engaged in any such activity;
- been found by a court of competent jurisdiction in a civil action or by the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;
- been the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated (not including any settlement of a civil proceeding among private litigants), relating to an alleged violation of any federal or state securities or commodities law or regulation, any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order, or any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or
- been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Except as set forth in our discussion below in “Certain Relationships and Related Transactions,” none of our directors or executive officers has been involved in any transactions with us or any of our directors, executive officers, affiliates or associates which are required to be disclosed pursuant to the rules and regulations of the Commission.

Compliance with Section 16(A) of the Exchange Act

Section 16(a) of the Exchange Act requires the Company’s directors, executive officers and persons who beneficially own 10% or more of a class of securities registered under Section 12 of the Exchange Act to file reports of beneficial ownership and changes in beneficial ownership with the SEC. Directors, executive officers and greater than 10% stockholders are required by the rules and regulations of the SEC to furnish the Company with copies of all reports filed by them in compliance with Section 16(a).

Shareholder Communications with Directors

Shareholders and other interested parties may send correspondence by mail to the full Board or to individual directors. Shareholders should address such correspondence to the Board or the relevant Board members in care of: Coates International, Ltd., 2100 Highway 34 & Ridgewood Road, Wall Township, NJ 07719, Attention: Corporate Secretary.

All such correspondence will be compiled by our Corporate Secretary and forwarded as appropriate. In general, correspondence relating to corporate governance issues, long-term corporate strategy or similar substantive matters will be forwarded to the Board, one of the committees of the Board, or a member thereof for review. Correspondence relating to the ordinary course of business affairs, personal grievances, and matters as to which we tend to receive repetitive or duplicative communications are usually more appropriately addressed by the officers or their designees and will be forwarded to such persons accordingly.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics, which applies to our board of directors, our executive officers and our employees, and which outlines the broad principles of ethical business conduct we adopted, covering subject areas such as:

- compliance with applicable laws and regulations,
- handling of books and records,
- public disclosure reporting,
- insider trading,
- discrimination and harassment,
- health and safety,
- conflicts of interest,
- competition and fair dealing, and
- protection of company assets.

Our code of business conduct and ethics can be viewed on our website at www.coatesengine.com.

Item 11. Executive Compensation.

The following table sets forth the compensation of specified executive officers and directors for the years ended December 31, 2017 and 2016:

Summary Compensation Table

Name and Principal Position	Year	Salary	Anti-dilution and Stock Awards	Interest	All Other Compensation	Total
George J. Coates <i>Chief Executive Officer and President</i>	2017	\$ 250,000(1)	\$ 5,154,263(2)	\$ 50,848 ⁽³⁾	\$ 15,978 ⁽⁴⁾	\$ 5,471,089
	2016	250,000(1)	6,385,514(2)	29,939 ⁽³⁾	16,072 ⁽⁴⁾	6,681,525
Barry C. Kaye <i>Chief Financial Officer and Treasurer</i>	2017	-	33,040(5)	59,800 ⁽⁶⁾	113,325 ⁽⁷⁾	206,165
	2016	-	35,036(5)	105,601 ⁽⁶⁾	102,400 ⁽⁸⁾	243,037
Gregory G. Coates <i>President, Technology Division</i>	2017	150,000(9)	422,669(10)	-	17,321 ⁽⁴⁾	569,990
	2016	150,280(9)	454,714(10)	-	21,941 ⁽⁴⁾	626,655

- (1) For the years ended December 31, 2017 and 2016, George J. Coates was paid \$10,000 and \$0-, respectively, and \$240,000 and \$250,000, respectively, was deferred until such time that we have sufficient working capital to pay such deferred compensation.
- (2) During the year ended December 31, 2017, on a pro forma basis after adjusting for the 1:200 reverse stock split, (i) the Company issued 3,351 shares of Series A with an estimated fair value of \$17,219 to George J. Coates representing anti-dilution shares to restore Mr. Coates' percentage of eligible votes to 85.7%, and (ii) George J. Coates received 136,599 and 59,694 shares, respectively, of Series B Convertible Preferred Stock with estimated fair values of \$5,203,762 and \$6,385,514, respectively, pursuant to an anti-dilution agreement.
- (3) Represents interest earned by George J. Coates on promissory notes from the Company for working capital he provided for the Company's operations.
- (4) Other compensation for George J. Coates and Gregory G. Coates consisted of health, dental and life insurance for the years ended December 31, 2017 and 2016.
- (5) During the year ended December 31, 2017 and 2016, on a pro forma basis after adjusting for the 1:200 reverse stock split, Barry C. Kaye received 823 and 335 shares, respectively, of Series B Convertible Preferred Stock with estimated fair values of \$27,494 and \$35,036, respectively, pursuant to an anti-dilution agreement.
- (6) Consists of \$58,848 of accrued interest not paid on deferred compensation for the year ended December 31, 2017, and \$105,149 of interest accrued in 2016, but not paid on deferred compensation during the period from March 2012 through December 2016.
- (7) During the year ended December 31, 2017, Barry C. Kaye was paid compensation of \$63,000. As of December 31, 2017, Mr. Kaye was owed \$252,725 of compensation he earned during the period from August 2015 to December 31, 2017 and \$165,401 of accrued interest. These amounts are included in accounts payable and accrued liabilities in the Company's balance sheet at December 31, 2017.
- (8) During the year ended December 31, 2016, Barry C. Kaye was paid compensation of \$6,000.
- (9) For the years ended December 31, 2017 and 2016, Gregory G. Coates was paid \$40,385 and \$117,347, respectively, and \$109,615 and \$32,934, respectively, of his salary was deferred until such time that we have sufficient working capital to pay such deferred compensation.
- (10) During the years ended December 31, 2017 and 2016, on a pro forma basis after adjusting for the 1:200 reverse stock split, Gregory G. Coates received 10,646 and 4,360 shares, respectively, of Series B Convertible Preferred Stock with estimated fair values of \$422,678 and \$454,714, respectively, pursuant to an anti-dilution agreement.

Outstanding Equity Awards at Fiscal Year End

The following table presents the outstanding equity awards to our executives as of December 31, 2017:

Name	Number of Securities Underlying Unexercised Options that are Exercisable	Number of Securities Underlying Unexercised Options that are Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Exercise Price	Option Expiration Date
George J. Coates	5,000	-	-	\$ 88.00	10/23/2021
	250	-	-	80.00	11/3/2024
	1,375	-	-	80.00	11/18/2025
	9,000	-	-	50.00	7/26/2026
	9,075	-	-	12.00	6/24/2027
Gregory G. Coates	2,500	-	-	88.00	10/23/2021
	9,000	-	-	48.00	8/8/2026
	1,758	-	-	5.60	4/30/2029
Barry C. Kaye	625	-	-	88.00	10/17/2021
	500	-	-	8.40	12/9/2028
	1,758	-	-	5.60	4/30/2029

Vesting of the stock options is subject to acceleration under certain circumstances in the event of an acquisition of the Company.

Director Compensation

A compensation program was adopted by the board of directors which provides for compensation to our directors in the amount of \$1,000 per day, plus reasonable travel expenses. This compensation plan further provides for the granting of stock options to our non-employee directors from time to time under our 2014 Stock Option and Incentive Plan to purchase our common stock at an exercise price equal to the quoted closing price of our common stock on the day prior to the date of grant.

We did not pay any compensation to our non-employee directors for the years ended December 31, 2017 and 2016.

Employment contracts, termination of employment and change-in-control arrangements

There are currently no employment contracts with any of our employees and there have been no terminations or change-in-control arrangements.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth information with respect to the beneficial ownership of our common stock as of April 13, 2018 for:

- each of our executive officers and directors;
- all of our executive officers and directors as a group; and
- any other beneficial owner of more than 5% of our outstanding common stock.

Beneficial ownership is determined in accordance with the rules of the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities and include ordinary shares issuable upon the exercise of stock options that are immediately exercisable or exercisable within 60 days. Except as otherwise indicated, all persons listed below have sole voting and investment power with respect to the shares beneficially owned by them, subject to applicable community property laws. The information is not necessarily indicative of beneficial ownership for any other purpose.

Percentage ownership calculations are based on 45,300,693 shares outstanding as of April 13, 2018. Addresses of named beneficial owners are c/o Coates International, Ltd., 2100 Highway 34 & Ridgewood Road, Wall Township, New Jersey 07719.

Name of Beneficial Owner	Beneficial Ownership			
	Outstanding Shares Beneficially Owned	Right to Acquire Within 60 Days After April 13, 2018	Shares Beneficially Owned	
			Number	Percentage
George J. Coates	2,899,560 ⁽¹⁾	22,023,700 ⁽²⁾	24,923,260	33.30%
Gregory G. Coates	70,162	1,570,258 ⁽³⁾	1,640,420	2.19%
Barry C. Kaye	18,676	109,883 ⁽⁴⁾	137,874	0.18%
Dr. Frank Adipietro	27,991	4,135 ⁽⁵⁾	22,811	0.03%
Richard Whitworth	-	125 ⁽⁵⁾	125	0.00%
Glenn Crocker	-	-	-	0.00%
All executive officers and directors as a group (5 persons)	3,016,389	23,708,100	26,724,489	35.70%

- (1) Includes 9,785 shares owned by Mr. Coates' spouse and 5,828 shares owned by The Coates Trust, a trust controlled by George J. Coates, as Trustee. Beneficial ownership of these shares is disclaimed by George J. Coates.
- (2) Includes 25,878 shares of Series B Convertible Preferred Stock which are eligible for conversion into 25,878,000 shares of common stock and 24,700 vested common stock options.
- (3) Includes 1,821 shares of Series B Convertible Preferred Stock which are eligible for conversion into 1,821,000 shares of common stock and 13,258 vested common stock options.
- (4) Includes 128 shares of Series B Convertible Preferred Stock which are eligible for conversion into 128,000 shares of common stock and 4,135 vested common stock options.
- (5) Consists of vested stock options.

Changes in Control

We are not aware of any arrangements that may result in "changes in control" as that term is defined by the provisions of Item 403(c) of Regulation S-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Certain Relationships and Related Transactions

Other than compensation arrangements, the following is a description of transactions to which we were a participant or will be a participant to, in which:

- the amounts involved exceeded or will exceed the lesser of 1% of our total assets or \$120,000; and
- any of our directors, executive officers or holders of more than 5% of our capital stock, or any member of the immediate family of the foregoing persons, had or will have a direct or indirect material interest.

Promissory Notes to Related Parties

Promissory Notes due to George J. Coates

During the years ended December 31, 2017 and 2016, we issued, in a series of transactions, promissory notes to George J. Coates and received cash proceeds of \$50,000 and \$177,000, respectively. During the years ended December 31, 2017 and 2016, the Company repaid promissory notes to George J. Coates in cash in the aggregate amount of \$81,000 and \$30,000, respectively, which included interest of \$48,000 in 2017. The promissory notes are payable on demand and provide for interest at the rate of 17% per annum, compounded monthly. At December 31, 2017, the outstanding balance was \$318,000, including accrued interest.

Promissory Note Issued to Gregory G. Coates

The Company has a non-interest bearing note payable to Gregory G. Coates, son of George J. Coates, President, Technology Division and Director, with a principal balance of \$1,418,000, which is payable on demand. During the year ended December 31, 2017, the Company repaid \$20,000 principal amount of this promissory note. As required by GAAP, interest at the rate of 10% per annum amounting to \$143,000 and \$144,000 has been imputed on this promissory note for the years ended December 31, 2017 and 2016, respectively.

Promissory Notes Issued to Bernadette Coates

During the years ended December 31, 2017 and 2016, we issued, in a series of transactions, promissory notes to Bernadette Coates and received cash proceeds of \$52,000 and \$-0-, respectively. During the years ended December 31, 2017 and 2016, the Company partially repaid promissory notes to Bernadette Coates, in the aggregate principal amount of \$31,000 and \$-0-, respectively. The promissory notes are payable on demand and provide for interest at the rate of 17% per annum, compounded monthly. At December 31, 2017, the outstanding balance was \$95,000, including accrued interest.

Share Issuances - Series B Convertible Preferred Stock

We provide anti-dilution protection to George J. Coates, Gregory G. Coates and Barry C. Kaye whenever new shares of our common stock are issued to any other parties. Such anti-dilution may be in the form of an award of either (i) shares of Series A Preferred Stock which entitles the holder to 10,000 votes per share on any matters brought before the common stockholders for a vote; or, (ii) shares of Series B Convertible Preferred Stock which are convertible into 1,000 shares of our common stock on or after the second anniversary after the date of issuance and entitle the holder to 1,000 votes per share on any matters brought before the common stockholders for a vote.

During the year ended December 31, 2017, the Company issued 3,351 shares of Series A with an estimated fair value of \$17,000 to George J. Coates representing anti-dilution shares to restore Mr. Coates' percentage of eligible votes to 85.7%.

During the year ended December 31, 2017, 136,599, 10,646 and 823 shares of Series B were issued to George J. Coates, Gregory G. Coates and Barry C. Kaye, respectively, having estimated fair values of \$5,204,000, \$423,000 and \$27,000, respectively. These amounts were included in stock-based compensation expense in the accompanying statement of operations for the year ended December 31, 2017.

During the year ended December 31, 2017, Barry C. Kaye converted 6.86 shares of Series B into 6,860 shares of the Company's common stock, respectively.

For the year ended December 31, 2016, 59,694, 4,360 and 335 shares of Series B were issued to George J. Coates, Gregory G. Coates and Barry C. Kaye, respectively, having an estimated fair value of \$6,386,000, \$455,000 and \$35,000, respectively. These amounts were included in stock-based compensation expense in the accompanying statement of operations for the year ended December 31, 2016.

During the year ended December 31, 2016, George J. Coates and Barry C. Kaye converted 575.03 shares and 14.88 shares of Series B into 575,030 and 14,880 shares of the Company's common stock, respectively.

At December 31, 2017, there were 228,471 shares of Series B outstanding. In the event that all of these shares were converted, once the conversion restrictions lapse, an additional 228,471,000 new unregistered shares of common stock would be issued. On a pro forma basis, based on the number of shares of common stock outstanding at December 31, 2017, this would dilute the ownership percentage of non-affiliated stockholders from 91.8% to 12.8%.

Stock Option Grants

No stock options were granted, exercised, forfeited or expired during the years ended December 31, 2017 and 2016. At December 31, 2017, there were no unvested stock options outstanding and all stock-based compensation expense related to outstanding stock options had been fully recognized.

Personal Guaranty and Pledge of Stock

The Company's mortgage loan on its headquarters is collateralized by the pledge of 25,000 shares of common stock of the Company owned by George J. Coates, which were deposited into escrow for the benefit of the lender and by his personal guaranty.

Director Independence

We have used the definition of "independence" contained in the listing rules of the NASDAQ Stock Market to make the determination as to whether or not our directors are independent, because our common stock is not currently listed on a national securities exchange. NASDAQ Listing Rule 5605(a)(2) provides that an "independent director" is a person other than an officer or employee of the Company or any other individual having a relationship which, in the opinion of the Company's board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The NASDAQ listing rules provide that a director cannot be considered independent if:

- the director is, or at any time during the past three years was, an employee of the company;
- the director or a family member of the director accepted any compensation from the company in excess of \$120,000 during any period of 12 consecutive months within the three years preceding the independence determination (subject to certain exclusions, including, among other things, compensation for board or board committee service);
- a family member of the director is, or at any time during the past three years was, an executive officer of the company;
- the director or a family member of the director is a partner in, controlling stockholder of, or an executive officer of an entity to which the company made, or from which the company received, payments in the current or any of the past three fiscal years that exceed 5% of the recipient's gross revenue for that year or \$200,000, whichever is greater (subject to certain exclusions);
- the director or a family member of the director is employed as an executive officer of an entity where, at any time during the past three years, any of the executive officers of the company served on the compensation committee of such other entity; or the director or a family member of the director is a current partner of the company's outside auditor, or at any time during the past three years was a partner or employee of the company's outside auditor, and who worked on the company's audit.

The following table sets forth the members of our board of directors that are independent and certain board committee assignments:

Dr. Frank Adipietro	Director *, **
Richard Whitworth	Director *, **
Glenn Crocker	Director *, ***

* Serves as an independent director.

** Serves as a member of our compensation committee.

*** Serves as a member of our audit committee.

Item 14. Principal Accounting Fees and Services.

The following table sets forth the aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the Company's annual financial statements and review of financial statements included in the Company's quarterly reports or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years.

	2017	2016
Audit Fees	\$ 72,000	\$ 70,000
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
Total	\$ 72,000	\$ 70,000

Audit Fees

During the year ended December 31, 2017, MSPC billed us in the aggregate, \$72,000 for professional services rendered for their audit of our annual financial statements for the years ended December 31, 2016, included in our Form 10-K and their reviews of the quarterly financial statements included in our Forms 10-Q for each of the three quarters in 2017.

During the year ended December 31, 2016, MSPC billed us in the aggregate, \$22,500 for professional services rendered for their reviews of the quarterly financial statements included in our Forms 10-Q for each of the each of the three quarters in 2016.

During the year ended December 31, 2016, Cowan billed us in the aggregate \$47,500 for professional services rendered for their audit of our annual financial statements for the year ended December 31, 2015.

Audit-related Fees

We did not incur any audit-related fees during the years ended December 31, 2017 and 2016.

Tax Fees

We did not incur any tax fees during the years ended December 31, 2017 and 2016.

All Other Fees

The Company did not incur any other fees related to services rendered by our principal auditors for the fiscal years ended December 31, 2017 and 2016.

The Securities and Exchange Commission adopted rules which require that before our auditor is engaged by us to render any auditing or permitted non-audit related service, the engagement be:

- approved by our audit committee; or
- entered into pursuant to pre-approval policies and procedures established by the audit committee, provided the policies and procedures are detailed as to the particular service, the audit committee is informed of each service, and such policies and procedures do not include delegation of the audit committee's responsibilities to management.

All of the above services were approved in accordance with the above adoptive rules of the Securities and Exchange Commission.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Documents Filed as Part of this Report.

(1) Financial Statements.

Audited financial statements of Coates International, Inc. as of December 31, 2017 and 2016 and for the years then ended are presented beginning on page F-1.

(2) Financial Statement Schedules.

None

(3) Exhibits

Exhibit No.	Description
3.1(i) ⁽¹⁾	- Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware on August 19, 1997
3.1(ii) ⁽¹⁾	- Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware on May 19, 2000
3.1(iii) ⁽¹⁾	- Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware on August 31, 2001
3.1(iv) ⁽²⁾	- Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware on September 12, 2007
3.1(v) ⁽³⁾	- Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware, dated May 29, 2015
3.1(vi) ⁽¹³⁾	- Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware, dated June 17, 2016
3.1(vii) ⁽²⁵⁾	- Certificate of Validation as filed with the Secretary of State of Delaware on April 2, 2018
3.2 ⁽¹⁾	- Bylaws
4.1 ⁽⁴⁾	- Certificate of Designation, Preferences and Rights of Series A Preferred Stock, effective April 30, 2009
4.2 ⁽⁴⁾	- Certificate of Amendment of Certification of Designation, Preferences and Rights of Series A Preferred Stock, effective May 24, 2011
4.3 ⁽⁵⁾	- Certificate of Designation, Preferences and Rights of Series B Convertible Preferred Stock, dated January 14, 2014
4.4 ⁽⁶⁾	- Certificate of Amendment of Designation of Series B Convertible Preferred Stock, dated March 9, 2015
4.5 ⁽¹³⁾	- Certificate of Amendment of Designation of Series B Convertible Preferred Stock, dated February 23, 2016

- 4.6⁽¹³⁾ - [Certificate of Amendment of Designation of Series B Convertible Preferred Stock, dated November 14, 2016](#)
- 10.4⁽⁷⁾ - [2006 Employee Stock Option and Incentive Plan adopted on October 25, 2006](#)
- 10.5⁽⁸⁾ - [Amended and Restated License Agreement between the Company and George J. Coates and Gregory G. Coates dated April 6, 2007](#)
- 10.6⁽⁹⁾ - [Letter from Cummins confirming supply arrangement with Coates International, Ltd.](#)
- 10.7⁽¹⁰⁾ - [2014 Employee Stock Option and Incentive Plan adopted on May 31, 2014](#)
- 10.8⁽¹¹⁾ - [License Agreement between the Company and Renown Power Development, Ltd., executed February 24, 2015.](#)
- 10.9⁽¹²⁾ - [Equity Purchase Agreement between the Company and Southridge Partners II LP, dated July 29, 2015](#)
- 10.10⁽¹²⁾ - [Registration Rights Agreement between the Company and Southridge Partners II LP, dated July 29, 2015](#)
- 10.11⁽¹⁴⁾ - [Convertible Promissory Notes issued to GS Capital Partners, LLC, dated May 3, 2017](#)
- 10.12⁽¹⁴⁾ - [Securities Purchase Agreement Between the Company and GS Capital Partners, LLC, dated May 3, 2017](#)
- 10.13⁽¹⁵⁾ - [Convertible Promissory Note Issued to APG Capital Holdings, LLC dated, May 4, 2017](#)
- 10.14⁽¹⁵⁾ - [Back-end Collateralized Convertible Promissory Note Issued to APG Capital Holdings, LLC, dated May 4, 2017](#)
- 10.15⁽¹⁵⁾ - [Securities Purchase Agreement Between the Company and APG Capital Holdings, LLC, dated May 4, 2017](#)
- 10.16⁽¹⁶⁾ - [Secured Convertible Promissory Notes issued to Typenex Co-Investment, LLC, dated June 7, 2017](#)
- 10.17⁽¹⁶⁾ - [Securities Purchase Agreement Between the Company and Typenex Co-Investment, LLC, dated June 7, 2017](#)
- 10.18⁽¹⁷⁾ - [Back-end Collateralized Convertible Promissory Note \(1 of 3\) Issued to Adar Abays, LLC, dated September 11, 2017](#)
- 10.19⁽¹⁷⁾ - [Back-end Collateralized Convertible Promissory Note \(2 of 3\) Issued to Adar Abays, LLC, dated September 11, 2017](#)
- 10.20⁽¹⁷⁾ - [Back-end Collateralized Convertible Promissory Note \(3 of 3\) Issued to Adar Abays, LLC, dated September 11, 2017](#)
- 10.21⁽¹⁸⁾ - [Convertible Promissory Note Issued to APG Capital Holdings, LLC dated September 20, 2017](#)
- 10.22⁽¹⁸⁾ - [Back-end Collateralized Convertible Promissory Note Issued to APG Capital Holdings, LLC dated September 20, 2017](#)

10.23 ⁽¹⁸⁾	- Securities Purchase Agreement Between the Company and APG Capital Holdings, LLC, dated September 20, 2017
10.24 ⁽¹⁹⁾	- Convertible Promissory Note Issued to GS Capital Partners, LLC, dated October 18, 2017
10.25 ⁽¹⁹⁾	- Back-end Collateralized Convertible Promissory Note Issued to GS Capital Partners, LLC, dated October 18, 2017
10.26 ⁽¹⁹⁾	- Securities Purchase Agreement Between the Company and GS Capital Partners, LLC, dated October 18, 2017
10.27 ⁽²⁰⁾	- Convertible Promissory Note Issued to Power Up Funding Lending Group Ltd., dated December 5, 2017
10.28 ⁽²⁰⁾	- Securities Purchase Agreement Between the Company and Power Up Funding Lending Group Ltd., dated December 5, 2017
10.29 ⁽²¹⁾	- Convertible Promissory Note Issued to Power Up Funding Lending Group Ltd., dated February 2, 2018
10.30 ⁽²¹⁾	- Securities Purchase Agreement Between the Company and Power Up Funding Lending Group Ltd., dated February 2, 2018
10.31 ⁽²²⁾	- Convertible Promissory Note Issued to GS Capital Partners, LLC, dated February 15, 2018
10.32 ⁽²²⁾	- Back-end Collateralized Convertible Promissory Note Issued to GS Capital Partners, LLC, dated February 15, 2018
10.33 ⁽²²⁾	- Securities Purchase Agreement Between the Company and GS Capital Partners, LLC, dated February 15, 2018
10.34 ⁽²³⁾	- Convertible Promissory Note Issued to Power Up Funding Lending Group Ltd., dated March 5, 2018
10.35 ⁽²³⁾	- Securities Purchase Agreement Between the Company and Power Up Funding Lending Group Ltd., dated March 5, 2018
10.36 ⁽²⁴⁾	- Settlement Agreement between Livingston Asset Management and Coates International, Ltd., dated March 19, 2018
10.37 ⁽²⁴⁾	- Circuit Court of Baltimore County, Maryland Order Granting Approval of Settlement Agreement and Stipulation, dated April 2, 2018
31.1 ⁽²⁵⁾	- Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2 ⁽²⁵⁾	- Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 ⁽²⁶⁾	- Certification of Principal Executive Officer Pursuant To 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2 ⁽²⁶⁾	- Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS ⁽²⁵⁾	- XBRL Instance Document.
101.SCH ⁽²⁵⁾	- XBRL Taxonomy Extension Schema Document.
101.CAL ⁽²⁵⁾	- XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF ⁽²⁵⁾	- XBRL Taxonomy Extension Definition Linkbase Document
101.LAB ⁽²⁵⁾	- XBRL Taxonomy Extension Label Linkbase Document
101.PRE ⁽²⁵⁾	- XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Incorporated by reference from the Company's Registration Statement filed May 31, 2007 on Form SB-2 with the Securities and Exchange Commission, File No. 333-143406.
- (2) Incorporated by reference from the Company's Schedule 14C DEF filed with the Securities and Exchange Commission on October 1, 2007.
- (3) Incorporated by reference from the Company's Registration Statement filed July 30, 2015 on Form S-1 with the Securities and Exchange Commission, File No. 333-205959.
- (4) Incorporated by reference from the Company's Form 10-K filed with the Securities and Exchange Commission on April 16, 2013.
- (5) Incorporated by reference from the Company's Form 10-K filed with the Securities and Exchange Commission on March 31, 2014.
- (6) Incorporated by reference from the Company's Form 10-K filed with the Securities and Exchange Commission on March 30, 2015.

- (7) Incorporated by reference from the Company's Form 10-KSB/A for the year ended December 31, 2005 filed on October 25, 2006.
- (8) Incorporated by reference from the Company's Form 10-KSB for the year ended December 31, 2006 filed with the Securities and Exchange Commission on April 17, 2006.
- (9) Incorporated by reference to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on June 24, 2011.
- (10) Incorporated by reference from the Company's Form S-1 filed with the Securities and Exchange Commission on August 19, 2014.
- (11) Incorporated by reference from the Company's Form 10-K for the fiscal year ended December 31, 2014.
- (12) Incorporated by reference from the Company's Form S-1 filed with the Securities and Exchange Commission on July 30, 2015.
- (13) Incorporated by reference from the Company's Form 10-K filed with the Securities and Exchange Commission on April 14, 2017.
- (14) Incorporated by reference from the Company's Form 8-K filed with the Securities and Exchange Commission on May 5, 2017.
- (15) Incorporated by reference from the Company's Form 8-K filed with the Securities and Exchange Commission on May 8, 2017.
- (16) Incorporated by reference from the Company's Form 8-K filed with the Securities and Exchange Commission on June 13, 2017.
- (17) Incorporated by reference from the Company's Form 8-K filed with the Securities and Exchange Commission on September 15, 2017.
- (18) Incorporated by reference from the Company's Form 8-K filed with the Securities and Exchange Commission on September 20, 2017.
- (19) Incorporated by reference from the Company's Form 8-K filed with the Securities and Exchange Commission on October 24, 2017.
- (20) Incorporated by reference from the Company's Form 8-K filed with the Securities and Exchange Commission on December 14, 2017.
- (21) Incorporated by reference from the Company's Form 8-K filed with the Securities and Exchange Commission on February 12, 2018.
- (22) Incorporated by reference from the Company's Form 8-K filed with the Securities and Exchange Commission on February 27, 2018.
- (23) Incorporated by reference from the Company's Form 8-K filed with the Securities and Exchange Commission on March 13, 2018.
- (24) Incorporated by reference from the Company's Form 8-K filed with the Securities and Exchange Commission on April 2, 2018.
- (25) Filed herewith.
- (26) In accordance with SEC Release 33-8238, Exhibit 32.1 and 32.2 are being furnished and not filed.

SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on April 17, 2018.

COATES INTERNATIONAL, LTD.

By: /s/ George J. Coates
George J. Coates,
Chairman and Chief Executive Officer

By: /s/ Barry C. Kaye
Barry C. Kaye,
Chief Financial Officer

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ George J. Coates</u> George J. Coates	Director, Chairman, Chief Executive Officer and President (principal executive officer)	April 17, 2018
<u>/s/ Gregory G. Coates</u> Gregory G. Coates	Director, Secretary and President-Technology Division	April 17, 2018
<u>/s/ Barry C. Kaye</u> Barry C. Kaye	Director, Treasurer, Chief Financial Officer (principal financial and accounting officer)	April 17, 2018
<u>/s/ Frank J. Adipietro</u> Frank J. Adipietro	Director	April 17, 2018
<u>/s/ Richard Whitworth</u> Richard Whitworth	Director	April 17, 2018
<u>/s/ Glenn Crocker</u> Glenn Crocker	Director	April 17, 2018

Coates International, Ltd.
Index to Financial Statements
December 31, 2017 and 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Coates International, Ltd.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Coates International, Ltd. (the “Company”) as of December 31, 2017 and 2016, and the related statements of operations, stockholders’ deficiency, and cash flows for each of the years in the two-year period ended December 31, 2017, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

The Company’s Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company continues to have negative working capital, negative cash flows from operations, recurring losses from operations, and a stockholders’ deficiency. These conditions raise substantial doubt about its ability to continue as a going concern. Management’s plans regarding these matters are also described in Note 1. The financial statements do not include any adjustments that may result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for purposes of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

MSPC

Certified Public Accountants and Advisors,
A Professional Corporation

We have served as the Company’s auditor since 2016.

Cranford, NJ
April 17, 2018

Coates International, Ltd.
Balance Sheets
As of December 31,

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash	\$ 6,807	\$ 9,163
Inventory, net	103,610	191,482
Other current assets	608	47,028
Total Current Assets	<u>111,025</u>	<u>247,673</u>
Property, plant and equipment, net	2,031,684	2,076,396
Deferred licensing costs, net	33,882	38,166
Total Assets	<u>\$ 2,176,591</u>	<u>\$ 2,362,235</u>
Liabilities and Stockholders' Deficiency		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,544,003	\$ 2,461,175
Deferred compensation payable	1,621,322	1,272,317
Promissory notes to related parties	1,472,409	1,454,699
Mortgage loan payable	1,273,158	60,000
Derivative liability related to convertible promissory notes	358,996	153,472
Unearned Revenues	150,595	150,595
Convertible promissory notes, net of unamortized discount	96,816	45,801
Current portion of sublicense deposits	60,725	60,725
Total Current Liabilities	<u>7,578,024</u>	<u>5,658,784</u>
Non-current portion of mortgage loan payable	-	1,273,158
Non-current portion of sublicense deposits	607,975	627,175
Total Liabilities	<u>8,185,999</u>	<u>7,559,117</u>
Commitments and Contingencies	-	-
Stockholders' Deficiency		
Preferred stock, \$0.001 par value, 100,000,000 shares authorized:		
Series A Preferred Stock, 5,000 and 1,000,000 shares designated, 3,601 and 250 shares issued and outstanding at December 31, 2017 and 2016, respectively	4	-
Series B Convertible Preferred Stock, 345,000 and 75,000,000 shares designated, 228,471 and 81,263 shares issued and outstanding at December 31, 2017 and 2016, respectively	228	81
Common Stock, \$0.0001 par value, 120,000,000 and 12,000,000,000 shares authorized, 36,943,242 and 15,013,652 shares issued and outstanding at December 31, 2017 and 2016, respectively	3,694	1,501
Additional paid-in capital	67,699,876	60,128,626
Accumulated deficit	(73,713,210)	(65,327,090)
Total Stockholders' Deficiency	<u>(6,009,408)</u>	<u>(5,196,882)</u>
Total Liabilities and Stockholders' Deficiency	<u>\$ 2,176,591</u>	<u>\$ 2,362,235</u>

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

Coates International, Ltd.
Statements of Operations

	For the Years Ended December 31,	
	2017	2016
Sublicensing fee revenue	\$ 19,200	\$ 29,200
Total Revenues	<u>19,200</u>	<u>29,200</u>
Expenses:		
Research and development costs	284,243	244,877
Stock-based compensation expense	5,676,626	6,875,514
Compensation and benefits	448,320	450,222
General and administrative expenses	323,098	403,253
Depreciation and amortization	48,995	48,370
Total Operating Expenses	<u>6,781,282</u>	<u>8,022,236</u>
Loss from Operations	<u>(6,762,082)</u>	<u>(7,993,036)</u>
Other Income (Expense):		
(Increase) decrease in estimated fair value of embedded derivative liabilities	(205,524)	479,455
Loss on conversion of convertible notes	(264,474)	(143,418)
Interest expense, net	(1,154,040)	(699,093)
Total other income (expense)	<u>(1,624,038)</u>	<u>(363,056)</u>
Loss Before Income Taxes	<u>(8,386,120)</u>	<u>(8,356,092)</u>
Provision for income taxes	-	-
Net Loss	<u>\$ (8,386,120)</u>	<u>\$ (8,356,092)</u>
Basic net loss per share	<u>\$ (0.35)</u>	<u>\$ (0.81)</u>
Basic weighted average shares outstanding	<u>23,812,394</u>	<u>10,318,089</u>
Diluted net loss per share	<u>\$ (0.35)</u>	<u>\$ (0.81)</u>
Diluted weighted average shares outstanding	<u>23,812,394</u>	<u>10,318,089</u>

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

Coates International, Ltd.
Statements of Stockholders' Deficiency
For the Two Years Ended December 31, 2017

	Series A Preferred Stock, \$0.001 par value per share		Series B Preferred Stock, \$0.001 par value per share		Common Stock, \$0.0001 par value per share		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficiency
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, January 1, 2016	250	\$ -	17,464	\$ 18	5,183,956	\$ 518	\$51,671,409	\$(56,970,998)	\$ (5,299,053)
Issuance of anti-dilution shares of Series B Convertible Preferred Stock to related parties			64,389	64			6,875,449		6,875,513
Conversion of convertible promissory notes					6,745,724	675	751,593		752,268
Conversion of promissory notes to related parties to common stock					1,056,592	106	156,737		156,843
Issuance of common stock under equity purchase agreement with Southridge Partners II, LP					862,470	86	199,220		199,306
Beneficial conversion feature on convertible promissory notes							255,093		255,093
Imputed interest on promissory note payable to related party							144,240		144,240
Conversions of Series B Convertible Preferred Stock to common stock	-	-	(590)	(1)	589,910	59	(58)		-
Issuance of common stock and warrants					575,000	57	74,943		75,000
Net loss for the year								(8,356,092)	(8,356,092)
Balance, December 31, 2016	250	-	81,263	81	15,013,652	1,501	60,128,626	\$(65,327,090)	\$(5,196,882)
Issuance of anti-dilution shares of Series B Convertible Preferred Stock to related parties			147,215	147			5,659,260		5,659,407
Conversion of convertible promissory notes					21,879,384	2,188	766,641		768,829
Issuance of Series A Preferred Stock	3,351	4					17,216		17,220
Beneficial conversion feature on convertible promissory notes							981,214		981,214
Imputed interest on promissory note payable to related party							142,580		142,580
Conversions of Series B Convertible Preferred Stock to common stock			(7)	-	6,860	1	(1)		-
Issuance of common stock					43,443	4	4,340		4,344
Payment for fractional shares resulting from reverse stock split					(97)	-	-		-
Net loss for the year								(8,386,120)	(8,386,120)
Balance, December 31, 2017	3,601	\$ 4	228,471	\$ 228	36,943,242	\$ 3,694	\$67,699,876	\$(73,713,210)	\$ (6,009,408)

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

Coates International, Ltd.
Statements of Cash Flows

	For the Years Ended December 31,	
	2017	2016
Net Cash Flows Used in Operating Activities		
Net loss for the year	\$ (8,386,120)	\$ (8,356,093)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	5,676,626	6,875,514
Interest accrued, but not paid	1,000,534	601,053
Loss on conversion of convertible notes	264,474	143,418
Increase (decrease) in fair value of embedded derivative liabilities	205,524	(479,455)
Depreciation and amortization	48,995	48,370
Non-cash portion of inventory used for research and development	-	60,101
Recognition of non-cash licensing revenues	(19,200)	(19,200)
Changes in Operating Assets and Liabilities:		
Inventory	87,872	26,535
Other assets	3,477	(37,910)
Accounts payable and accrued liabilities	3,452	293,369
Deferred compensation payable	349,005	350,173
Net Cash Used in Operating Activities	<u>(765,361)</u>	<u>(494,125)</u>
Net Cash Used in Investing Activities:		
Acquisition of property, plant and equipment	-	(11,493)
Cash Flows Provided by Financing Activities:		
Issuance of convertible promissory notes	810,050	175,750
Issuance of promissory notes to related parties	102,011	182,143
Issuance of common stock under equity purchase agreements	42,944	199,306
Issuance of common stock	-	75,000
Licensing Fee Revenue	-	10,000
Repayment of promissory notes and accrued interest to related parties	(132,000)	(93,000)
Repayment of mortgage loan	(60,000)	(55,000)
Finance Lease Obligation Payments	-	(8,625)
Net Cash Provided by Financing Activities	<u>763,005</u>	<u>485,574</u>
Net Decrease in Cash	(2,356)	(20,044.00)
Cash, beginning of period	9,163	29,207.00
Cash, end of period	<u>\$ 6,807</u>	<u>\$ 9,163</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 161,069</u>	<u>\$ 161,069</u>
Supplemental Disclosure of Non-cash Financing Activities:		
Conversion of convertible promissory notes	<u>\$ 714,942</u>	<u>\$ 714,942</u>

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

Coates International, Ltd.
Notes to Financial Statements
December 31, 2017 and 2016
(All amounts rounded to thousands of United States dollars)

1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Company has acquired the exclusive licensing rights to the patented Coates spherical rotary valve (“CSRV[®]”) system technology in North America, Central America and South America (the “CSRV[®] License”). The CSRV[®] system technology has been developed over a period of more than 20 years by the Company’s founder George J. Coates, President and Chief Executive Officer, and his son Gregory G. Coates. The CSRV[®] system technology is adaptable for use in piston-driven internal combustion engines of many types and has been patented in the United States and numerous countries throughout the world. The Company is endeavoring to raise working capital to commence production of natural gas powered CSRV[®] industrial electric power generator sets (“Gen Sets”) and is also seeking to enter into sublicense agreements with third party, original equipment manufacturers (“OEM’s”) which provide for licensing fees. Mr. Coates is also continuing with research and development of a hydrogen reactor to harvest Hydroxy-Gas from water with the intent to power the Company’s products, including large industrial Gen Sets. George J. Coates, owner of the hydrogen reactor technology, has committed to license this technology to the Company once the related patent protection is in place.

Management believes that the CSRV[®] engines provide the following advantages as compared to conventional internal combustion engines designed with “poppet valves”:

- Improved fuel efficiency
- Lower levels of harmful emissions
- Adaptability to numerous types of engine fuels
- Longer engine life
- Longer intervals between engine servicing

The CSRV[®] system technology is designed to replace the intake and exhaust conventional “poppet valves” currently used in almost all piston-driven, automotive, truck, motorcycle, marine and electric power generator engines, among others. Unlike conventional valves which protrude into the engine cylinder, the CSRV[®] system technology utilizes spherical valves that rotate in a cavity formed between a two-piece cylinder head. The CSRV[®] system technology utilizes significantly fewer moving parts than conventional poppet valve assemblies. As a result of these design improvements, management believes that engines incorporating the CSRV[®] system technology (“Coates Engines”) will last significantly longer and will require less lubrication over the life of the engine, as compared to conventional engines. In addition, CSRV[®] Engines can be designed with larger openings into the engine cylinder than with conventional valves so that more fuel and air can be inducted into, and expelled from, the cylinder in a shorter period of time. Larger valve openings permit higher revolutions-per-minute (RPM’s) and permit higher compression ratios with lower combustion chamber temperatures, allowing the Coates Engine[®] to produce more power than equivalent conventional engines. The extent to which higher RPM’s, greater volumetric efficiency and thermal efficiency can be achieved with the CSRV[®] system technology, is a function of the engine design and application.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

Hydrogen Reactor Technology Owned by George J. Coates

George J. Coates has developed a hydrogen reactor which rearranges H₂O water molecules into HOH molecules also known as Hydroxy-Gas. Hydroxy-Gas has a different molecular structure than hydrogen gas. It consists of two hydrogen atoms. The Hydroxy-Gas produced by the hydrogen reactor can then be harvested for use as a type of fuel. While Mr. Coates intends to continue with development of this technology to enable the harvested Hydroxy-Gas to be utilized as the fuel source to power our patented CSRV[®] engines, development has been postponed in order to focus on potential new sublicense agreements for Gen Sets powered by hydrogen gas fuel. The next phase of this research and development will focus on powering larger, industrial engines. If successful, this application will only require a ready supply of water and would be suitable for stationary engines and generators. Conventional internal combustion engines employing poppet valve assemblies require lubrication and would experience excessive heat and friction if powered with Hydroxy-Gas. This, in turn, would cause the engines to burn out in a rather short period of time. The materials and components of the CSRV[®] engines do not require such lubrication and because of their design, are able to operate relatively trouble-free on Hydroxy-Gas as the engine fuel. There can be no assurance that this technology can be developed successfully, or that if developed, it will be feasible to penetrate the internal combustion engine market with this technology.

The Company previously agreed to collaborate on the development of this technology with WTF Asia International Ltd. (“WTF Asia”), a Hong Kong-based entity to enable it to be applied to large industrial Gen Sets. We have determined that it is no longer feasible to work with WTF Asia due to the owner’s health and concerns with the status of WTF Asia’s technology. The Company intends to independently pursue further development of this technology at some indefinite point in the future.

Applications for patent protection of this technology would be filed upon completion of the research and development. Although at this time, no arrangements have been made between the Company and George J. Coates, owner of the technology, regarding licensing of the hydrogen reactor, Mr. Coates has provided his commitment to license this technology to the Company, once the related patent protection is in place. Accordingly, the Company does not currently have any rights to manufacture, use, sell and distribute the hydrogen reactor technology, should it become commercially feasible to manufacture and distribute products powered by the Hydroxy-Gas fuel. The Company has been responsible for all costs incurred to date related to the development of this technology.

Basis of Presentation

The accompanying financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and rules and regulations of the Securities and Exchange Commission (the “SEC”).

Since the Company’s inception, the Company has been responsible for the development costs of the CSRV[®] technology in order to optimize the value of the licensing rights and has incurred related operational costs, the bulk of which have been funded primarily through cash generated from licensing fees, sales of capital stock, short term convertible promissory notes, capital contributions, loans made by George J. Coates, Gregory G. Coates, Bernadette Coates, his spouse and certain directors, fees received from research and development of prototype models and a small number of CSRV[®] engine generator sales. The Company has incurred substantial cumulative losses from operations since its inception. Losses from operations are expected to continue until the Coates Engines[®] are successfully introduced into and accepted in the marketplace, or the Company receives substantial licensing revenues. These losses from operations were substantially related to research and development of the Company’s intellectual property rights, patent filing and maintenance costs and general and administrative expenses. The Company has also incurred substantial non-cash expenses for stock-based compensation, imputed interest arising from the amortization of discount on convertible promissory notes and the conversion of convertible promissory notes into common stock.

As shown in the accompanying financial statements, the Company has incurred recurring losses from operations and, as of December 31, 2017, had a stockholders’ deficiency of (\$6,009,000). In addition, our mortgage loan which had a principal balance of \$1,273,000 at December 31, 2017, matures in July 2018. The Company will be required to renegotiate the terms of an extension of the mortgage loan or successfully refinance the property with another mortgage lender, if possible. Failure to do so could adversely affect the Company’s financial position and results of operations. Further, the recent trading price range of the Company’s common stock has introduced additional risk and difficulty to the Company’s challenge to secure needed additional working capital. These factors raise substantial doubt about the Company’s ability to continue as a going concern. Management has instituted a cost control program intended to restrict variable costs to only those expenses that are necessary to complete its activities related to entering the production phase of operations, develop additional commercially feasible applications of the CSRV[®] system technology, seek additional sources of working capital and cover general and administrative costs in support of such activities. The Company has been actively undertaking efforts to secure new sources of working capital. At December 31, 2017, the Company had negative working capital of (\$7,467,000) compared with negative working capital of (\$5,411,000) at the end of 2016.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

During the years ended December 31, 2017 and 2016, the Company raised \$959,000 and \$642,000, respectively, of new working capital from the following:

Description	2017	2016
Issuances of convertible promissory notes	\$ 810,000	\$ 176,000
Issuances of promissory notes to related parties	102,000	182,000
Sales of common stock under equity purchase agreements	43,000	199,000
Private sales of shares of common stock and common stock warrants	-	75,000
Licensing fee revenue	-	10,000
	<u>\$ 955,000</u>	<u>\$ 642,000</u>

The Company continues to actively seek out new sources of working capital; however, there can be no assurance that it will be successful in these efforts. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Certain amounts included in the accompanying financial statements for the year ended December 31, 2016 have been reclassified in order to make them comparable to the amounts presented for the year ended December 31, 2017.

Reverse Stock Split

The Company effected a one-for-200 reverse stock split of all of its outstanding shares of common stock, Series A Preferred Stock, Series B Convertible Preferred Stock, common stock warrants and stock options as of the close of trading on December 1, 2017. All prior year balances of shares of capital stock, warrants and stock options outstanding and all presentations and disclosures of transactions in shares of capital stock, warrants and stock options have been restated on a pro forma basis as if the reverse stock split had occurred prior to the beginning of the year ended December 31, 2016. Such restatements include calculations regarding the Company's weighted average shares outstanding and loss per share.

The following presents the amounts previously reported before the reverse stock split and restated balances reflected in the accompanying balance sheets and statements of stockholders' deficiency as of January 1, 2016 and December 31, 2016:

	December 31, 2016			January 1, 2016		
	Originally Reported	Restatement Adjustment	As Restated	Originally Reported	Restatement Adjustment	As Restated
Common Stock	\$ 300,273	(\$ 298,772)	\$ 1,501	\$ 103,679	(\$ 103,161)	\$ 518
Series A Preferred Stock	50	(50)	-	50	(50)	-
Series B Convertible Preferred Stock	16,253	(16,172)	81	3,493	(3,475)	18
Additional Paid-in Capital	59,813,632	314,994	60,128,626	51,564,723	106,686	51,671,409

Coates International, Ltd.
Notes to Financial Statements – (Continued)

Revenue Recognition

License deposits, which are non-refundable, were received from the granting of sublicenses and are recognized as earned, generally commencing upon acceptance by the licensee. At that time, license revenue will be recognized ratably over the period of time that the sublicense has been granted using the straight-line method. Upon termination of a sublicense agreement, non-refundable license deposits, less any costs related to the termination of the sublicense agreement, are recognized as revenue. Revenue from research and development activities is recognized when earned and realization is reasonably assured, provided that financial risk has been transferred from the Company to its customer.

The Company is recognizing the license deposit of \$300,000 on a Canadian License as revenue on a straight-line basis over the approximate remaining life through 2027 of the last CSR[®] technology patent in force.

Research and Development

Research and development costs are expensed when incurred. Included in accounts payable and accrued liabilities at December 31, 2017 and 2016 is \$115,000 for the estimated remediation costs of previously sold Gen Sets that were determined to have cracked heads.

Intellectual Property

Under a licensing agreement with George J. Coates and Gregory G. Coates, the Company obtained the rights to manufacture, use and sell the CSR[®] engine technology throughout the territory defined as the Western Hemisphere. The Company is not permitted to record a value for this intellectual property because it was obtained from principal stockholders, and, accordingly this intangible asset is not reflected in the accompanying financial statements.

Licensing Costs

Under the CSR[®] Licensing Agreement for the CSR[®] engine technology, the Company is responsible for all costs in connection with applying for and maintaining patents to protect the CSR[®] system technology. Such costs are expensed as incurred.

Stock-Based Compensation

Stock-based compensation expense, which does not require any outlay of cash, consists of the following:

- The estimated fair value of shares of the Company's capital stock issued to key employees for anti-dilution protection pursuant to a resolution of the board of directors. This includes restricted shares of Series A Preferred Stock and Series B Convertible Stock. In 2014, the Company arranged for an independent professional services firm to determine the estimated fair value of Series A Preferred Stock issued in August 2014 and Series B Preferred Stock issued in July 2014. The approach to arriving at the estimated fair value of the Series A Preferred Stock and the Series B Convertible Preferred Stock were determined to have a close correlation to the trading price of the Company's common stock. Accordingly, upon each subsequent issuance of shares of the Series A Preferred Stock and Series B Convertible Preferred Stock, the original estimated fair values determined by the independent valuation is adjusted, on a pro rata basis, to reflect the closing price of the Company's common stock on each date of issuance.
- Compensation expense relating to stock options and stock awards under its stock option and incentive plans is recognized as an expense using the fair value measurement method. Under the fair value method, the estimated fair value of awards to employees is charged to income on a straight-line basis over the requisite service period, which is the earlier of the employee's retirement eligibility date or the vesting period of the award.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

Deferred Compensation

Deferred compensation represents salaries of George J. Coates, Gregory G. Coates, Bernadette Coates and one employee earned but not paid in order to preserve the Company's working capital. The Company intends to repay these amounts at such time that it has sufficient working capital and after the related party notes to George J. Coates, Bernadette Coates and one employee have been repaid with interest thereon. Deferred compensation owed to Gregory G. Coates will be paid at such time that the Company has sufficient working capital. During the year ended December 31, 2017, \$10,000 of deferred compensation was paid to George J. Coates. No other payments of deferred compensation were made during the years ended December 31, 2017 and 2016.

Inventory

Inventory consists of raw materials and work-in-process, including overhead and is stated at the lower of cost or market determined by the first-in, first-out method. Inventory items designated as obsolete or slow moving are reduced to net realizable value. Market value is determined using current replacement cost.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets: 40 years for buildings and building improvements, 3 to 7 years for machinery and equipment and 5 to 10 years for furniture and fixtures. Repairs and maintenance expenditures, which do not extend the useful lives of the related assets, are expensed as incurred.

In the event that facts and circumstances indicate that long-lived assets may be impaired, an evaluation of recoverability is performed. Should such evaluation indicate that there has been an impairment of one or more long-lived assets, the cost basis of such assets would be adjusted accordingly, at that time.

Income Taxes

Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized and are adjusted when conditions indicate that deferred tax assets will be realized. Income tax expense (benefit) is the tax payable or refundable for the period, plus or minus the change during the period in deferred tax assets and liabilities. Deferred tax assets and the valuation allowance at December 31, 2017 and 2016, have been adjusted to reflect the change in effective tax rates that went into effect as of January 1, 2018, pursuant to the Tax Cuts and Jobs Act of 2017.

The Company evaluates any uncertain tax positions for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes. In the event recognition of an uncertain tax position is indicated, the Company measures the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. This process of evaluating and estimating uncertain tax positions and tax benefits requires the consideration of many factors, which may require periodic adjustments and which may not accurately forecast actual outcomes. Interest and penalties, if any, related to tax contingencies would be included in income tax expense.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

Loss per Share

Basic net loss per share is based on the weighted average number of common shares outstanding without consideration of potentially dilutive shares of common stock. Diluted net income per share is based on the weighted average number of common and potentially dilutive common shares outstanding, when applicable. Net loss per share was determined on a pro forma basis assuming the one-for-200 reverse stock split, which occurred upon the close of trading on December 1, 2017, had instead occurred as of January 1, 2016.

Use of Estimates

The preparation of the Company's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These significant estimates include determining the fair value of convertible promissory notes containing embedded derivatives and variable conversion rates, determining a value for shares of Series A Preferred Stock and Series B Convertible Preferred Stock issued, assigning useful lives to the Company's property, plant and equipment, determining an appropriate amount to reserve for obsolete and slow moving inventory, estimating a valuation allowance for deferred tax assets, assigning expected lives to, and estimating the rate of forfeitures of, stock options granted and selecting a trading price volatility factor for the Company's common stock in order to estimate the fair value of the Company's stock options on the date of grant or other appropriate measurement date. Actual results could differ from those estimates.

2. CONCENTRATIONS OF CREDIT AND BUSINESS RISK

The Company maintains cash balances with one financial institution. Monies on deposit are currently fully insured by the Federal Deposit Insurance Corporation.

The Company's operations are devoted to the development, application and marketing of the CSRV[®] system technology which was invented by George J. Coates, the Company's founder, Chairman, Chief Executive Officer, President and controlling stockholder. Development efforts have been conducted continuously during this time. From July 1982 through May 1993, seven U.S. patents as well as a number of foreign patents were issued with respect to the CSRV[®] system technology. Since inception of the Company in 1988, all aspects of the business have been completely dependent upon the activities of George J. Coates. The loss of George J. Coates' availability or service due to death, incapacity or otherwise would have a material adverse effect on the Company's business and operations. The Company does not presently have any key-man life insurance in force for Mr. Coates.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash, Other Assets, Accounts Payable and Accrued Liabilities and Other Liabilities

With the exception of convertible promissory notes, the carrying amount of these items approximates their fair value because of the short-term maturity of these instruments. The convertible promissory notes are reported at their estimated fair value, determined as described in more detail in Note 13.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

4. LICENSING AGREEMENT AND DEFERRED LICENSING COSTS

The Company holds a manufacturing, use, lease and sale license from George J. Coates and Gregory G. Coates for the CSRV[®] system technology in the territory defined as the Western Hemisphere (the “License Agreement”). Under the License Agreement, George J. Coates and Gregory G. Coates granted to the Company an exclusive, perpetual, royalty-free, fully paid-up license to the intellectual property that specifically relates to an internal combustion engine that incorporates the CSRV[®] system technology (the “CSRV[®] Engine”) and that is currently owned or controlled by them (the “CSRV[®] Intellectual Property”), plus any CSRV[®] Intellectual Property that is developed by them during their employment with the Company. In the event of insolvency or bankruptcy of the Company, the licensed rights would terminate and ownership would revert back to George J. Coates and Gregory G. Coates.

Under the License Agreement, George J. Coates and Gregory G. Coates agreed that they will not grant any Western Hemisphere licenses to any other party with respect to the CSRV[®] Intellectual Property.

At December 31, 2017 and 2016 deferred licensing costs, comprised of expenditures for patent costs incurred pursuant to the CSRV[®] licensing agreement, net of accumulated amortization, amounted to \$34,000 and \$38,000, respectively. Amortization expense for the years ended December 31, 2017 and 2016 amounted to \$4,000 and \$4,000, respectively.

5. AGREEMENT ASSIGNED TO ALMONT ENERGY, INC.

In 2010, Almont Energy Inc. (“Almont”), a privately held, independent third-party entity based in Alberta, Canada became the assignee of a sublicense which covers the use of the CSRV[®] system technology in the territory of Canada in the oil and gas industry (the “Canadian License”). This sublicense is currently inactive because the parties have not fulfilled their obligations thereunder due to the Company’s delay in starting up production and delivery of CSRV[®] products to Almont. The parties mutually agreed to consider the basis on which the license could be reactivated at such time that the Company is successful in starting up its manufacturing operations.

In prior years, the Company received a non-refundable \$300,000 deposit on the Canadian License. As the Company continues to be desirous of commencing shipments of its CSRV[®] products to Almont under the sublicense at such time that it is able to start up production operations, it has continued to amortize this deposit into income over the period until expiration of the last CSRV[®] system technology patent in force. At December 31, 2017, the unamortized balance was \$170,000. Amortization of this amount is as follows:

Year Ending	Amount
2018	19,000
2019	19,000
2020	19,000
2021	19,000
Thereafter	94,000
	<u>\$ 170,000</u>

6. NON-EXCLUSIVE DISTRIBUTION SUBLICENSE WITH RENOWN POWER DEVELOPMENT, LTD.

In February 2015, the Company granted a non-exclusive distribution sublicense to Renown Power Development, Ltd., a China-based sales and distribution company (“Renown”) covering the territory defined as the Western Hemisphere. Under this sublicense, Renown will be permitted to sell, lease and distribute CSRV[®] products. Renown intends to source CSRV[®] products from Coates Power, Ltd., a China-based company formed for the purpose of manufacturing CSRV[®] products (“Coates Power”). Coates Power has not been able to commence operations due to ongoing delays in obtaining necessary support and approval from the Chinese government in spite of continuing efforts by Renown to do so on its behalf. This has been and continues to be a long, arduous process because the government is addressing this at a very slow pace. As of December 31, 2017, the Company has only received an initial non-refundable deposit of \$500,000. Until Coates Power can begin production of CSRV[®] products for Renown, the Company will not receive any further monies from its sublicense with Renown.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

At this time, as the Company's intellectual property rights only cover the territory of North America, it does not have any rights to enter into a manufacturing and sale license agreement with Coates Power. These rights are currently held by George J. Coates, Gregory G. Coates and The Coates Trust, a trust controlled by George J. Coates. Coates Power and Renown are controlled and managed by Mr. James Pang, the Company's liaison agent in China.

The Company received a \$131,000 cash deposit with an order from Coates Power to produce two Gen Sets. This amount is included in Deposits in the accompanying balance sheets at December 31, 2017 and 2016. The Company intends to build and ship these two generators at such time that Coates Power is able to commence production in accordance with the manufacturing license agreement and there is sufficient working capital for this purpose.

7. INVENTORY

Inventory at December 31, consisted of the following:

	2017	2016
Raw materials	\$ 104,000	\$ 178,000
Work-in-process	-	13,000
Total	<u>\$ 104,000</u>	<u>\$ 191,000</u>

8. LICENSE DEPOSITS

License deposits consist of monies received as deposits on sublicense agreements, primarily comprised of deposits from Renown in the amount of \$498,000 and from Almont in the amount of \$300,000. The Almont deposit is being recognized as income on a straight-line basis over the remaining period until expiration of the last remaining CSRV[®] patent in force in 2027. Through December 31, 2017, the Company has recognized a total of \$130,000 of the Almont deposit as revenue. The Company expects that sublicense-related activities by Renown may commence within the next twelve months and that it will begin recognizing revenue at that time. Recognition of revenue from the Almont license is included in the statements of operations for the years ended December 31, 2017 and 2016. The current portion of the license deposits represents the portion of the license deposits expected to be recognized as revenue within one year from the balance sheet date. The balance of the license deposits is included in non-current license deposits.

In December 2016, the Company entered into an exclusive sublicense agreement with a group of companies under common ownership referred to as the Secure Supplies Companies ("Secure Supplies"). Under this sublicense agreement, Secure Supplies intended to procure a substantial number of large industrial CSRV[®] electric power generators powered by hydrogen gas. Secure Supplies is in default under the sublicense agreement for failure to pay the licensing fee that was due upon signing. In September 2017 the Company declared Secure Supplies in default and canceled the sublicense agreement. In the event that Secure Supplies is able to adequately fund its operating plan, the Company would consider entering into a new, non-exclusive sublicense agreement. The Company intends to sublicense hydrogen powered CSRV[®] electric power generators to other interested third parties on a non-exclusive basis.

Sublicensing fee revenue for the years ended December 31, 2017 and 2016 amounted to \$19,000 and \$29,000, respectively. Included in sublicensing fee revenue for 2016, was a \$10,000 sublicensing fee received from Secure Supplies.

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at cost, less accumulated depreciation, consists of the following at December 31:

	2017	2016
Land	\$ 1,235,000	\$ 1,235,000
Building	964,000	964,000
Building improvements	83,000	83,000
Machinery and equipment	689,000	689,000
Furniture and fixtures	57,000	57,000
	<u>3,028,000</u>	<u>3,028,000</u>
Less: Accumulated depreciation	<u>(996,000)</u>	<u>(952,000)</u>
Total	<u>\$ 2,032,000</u>	<u>\$ 2,076,000</u>

Coates International, Ltd.
Notes to Financial Statements – (Continued)

Depreciation expense amounted to \$45,000 and \$44,000 for the years ended December 31, 2017 and 2016, respectively.

10. MORTGAGE LOAN PAYABLE

The Company has a mortgage loan on the land and building that serves as its headquarters and research and development facility which bears interest at the rate of 7.5% per annum and matures in July 2018. Interest expense for the years ended December 31, 2017 and 2016 on this mortgage amounted to \$99,000 and \$95,000, respectively. The loan requires monthly payments of interest, plus \$5,000 which is being applied to the principal balance. The remaining principal balance at December 31, 2017 and 2016 was \$1,273,000 and \$1,333,000, respectively. The mortgage loan may be prepaid in whole, or, in part, at any time without penalty. The Company will be required to renegotiate the terms of a further extension of the mortgage loan or successfully refinance the property with another mortgage lender, if possible. Failure to do so, could adversely affect the Company's financial position and results of operations.

The loan is collateralized by a security interest in all of the Company's assets, the pledge of 25,000 shares of common stock of the Company owned by George J. Coates, which were deposited into escrow for the benefit of the lender and the personal guarantee of George J. Coates. The Company is not permitted to create or permit any secondary mortgage or similar liens on the property or improvements thereon without prior consent of the lender.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at December 31, consisted of the following:

	2017	2016
Legal and professional fees	\$ 1,427,000	\$ 1,452,000
Accrued interest expense	582,000	502,000
General and administrative expenses	420,000	392,000
Research and development costs	115,000	115,000
Total	<u>\$ 2,544,000</u>	<u>\$ 2,461,000</u>

13. PROMISSORY NOTES TO RELATED PARTIES

Promissory Notes Issued to George J. Coates

During the years ended December 31, 2017 and 2016, the Company issued, in a series of transactions, promissory notes to George J. Coates and received cash proceeds of \$50,000 and \$177,000, respectively. During the years ended December 31, 2017 and 2016 the Company repaid promissory notes to George J. Coates in cash in the aggregate principal amount of \$33,000 and \$30,000, respectively, and \$48,000 and \$63,000 of interest in 2017 and 2016, respectively. In addition, during the year ended December 31, 2016, the Company and Mr. Coates mutually agreed to convert a total of \$159,000 of promissory notes into common stock of the Company at exercise prices ranging from \$0.0006 to \$0.0011 per share. The exercise price was determined to be the closing trading price of the Company's common stock on the dates of conversion. The promissory notes are payable on demand and provide for interest at the rate of 17% per annum, compounded monthly. At December 31, 2017, the outstanding balance consisted of \$20,000 of principal and \$318,000 of accrued interest.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

Promissory Note Issued to Gregory G. Coates

The Company has a non-interest bearing note payable to Gregory G. Coates, son of George J. Coates, President, Technology Division and Director, with a principal balance of \$1,418,000 at December 31, 2017 which is payable on demand. During the year ended December 31, 2017, the Company repaid \$20,000 principal amount of this promissory note. Interest at the rate of 10% per annum amounting to \$143,000 and \$144,000 has been imputed on this promissory note for the years ended December 31, 2017 and 2016, respectively.

Promissory Notes Issued to Bernadette Coates

During the years ended December 31, 2017 and 2016, the Company issued, in a series of transactions, promissory notes to Bernadette Coates, spouse of George J. Coates, and received cash proceeds of \$52,000 and \$-0-, respectively. During the years ended December 31, 2017 and 2016 the Company repaid promissory notes to Bernadette Coates in cash in the aggregate principal amount of \$31,000 and \$-0-. The promissory notes are payable on demand and provide for interest at the rate of 17% per annum, compounded monthly. At December 31, 2017, the outstanding balance consisted of \$29,000 of principal and \$95,000 of accrued interest.

Promissory Note to Employee

During the year ended December 31, 2016, the Company issued a promissory note to an employee and received cash proceeds of \$5,000. The promissory note is payable on demand and provides for interest at the rate of 17% per annum, compounded monthly. Accrued interest on this note amounted to \$1,000 at December 31, 2017.

For the years ended December 31, 2017 and 2016, aggregate interest expense on all promissory notes to related parties amounted to \$223,000 and \$293,000, respectively.

14. CONVERTIBLE PROMISSORY NOTES AND EMBEDDED DERIVATIVE LIABILITY

From time to time, the Company issues convertible promissory notes. At December 31, 2017, there was \$186,000 principal amount of convertible promissory notes outstanding. The net proceeds from these convertible notes were used for general working capital purposes. During the years ended December 31, 2017 and 2016, \$867,000 and \$190,000, respectively, of convertible promissory notes were issued. The notes may be converted into unregistered shares of the Company's common stock at discounts ranging from 30% to 38% of the defined trading price of the common stock on the date of conversion. The defined trading prices are based on the trading price of the stock during a defined trading period ranging from 10 to 25 trading days immediately preceding the date of conversion. The conversion rate discount establishes a beneficial conversion feature ("BCF") or unamortized discount, which is required to be valued and accreted to interest expense over the six-month period until the conversion of the notes into restricted shares of common stock is permitted. In addition, the conversion formula meets the conditions that require accounting for convertible notes as derivative liability instruments.

All of the convertible notes become convertible, in whole, or in part, beginning on the six-month anniversary of the issuance date and may be prepaid at the option of the Company, generally with a prepayment penalty ranging from 25% to 50% of the principal amount of the convertible note at any time prior to becoming eligible for conversion.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

In accordance with GAAP, the estimated fair value of the embedded derivative liability related to the convertible notes is required to be remeasured at each balance sheet date. The fair value measurement accounting standard establishes a valuation hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on independent market data sources. Unobservable inputs are inputs that reflect the Company’s assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available. The valuation hierarchy is composed of three categories. The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs include quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Inputs to the fair value measurement are unobservable inputs or valuation techniques.

The estimated fair value of the embedded derivative liabilities related to promissory notes outstanding was measured as the aggregate estimated fair value, based on Level 2 inputs, which included the average of the quoted daily yield curve rates on six-month and one-year treasury securities and, because the actual volatility rate on the Company’s common stock is not available, a conservative estimated volatility rate of 200%.

The embedded derivative liability arises because, based on historical trading patterns of the Company’s stock, the formula for determining the Conversion Rate is expected to result in a different Conversion Rate than the closing price of the stock on the actual date of conversion (hereinafter referred to as the “Variable Conversion Rate Differential”). The estimated fair values of the derivative liabilities have been calculated based on a Black-Scholes option pricing model.

The following table presents the Company’s fair value hierarchy of financial assets and liabilities measured at fair value on:

	December 31, 2017	December 31, 2016
Level 1 Inputs	\$ -	\$ -
Level 2 Inputs	359,000	153,000
Level 3 Inputs	-	-
Total	<u>\$ 359,000</u>	<u>\$ 153,000</u>

In a series of transactions, during the year ended December 31, 2017, convertible promissory notes with an aggregate principal balance of \$726,000, including accrued interest thereon were converted into 21,879,033 unregistered shares of common stock. The Company incurred a loss on these conversions amounting to \$264,000 for the year ended December 31, 2017. Included in this loss is \$43,000 related to the issuance of 1,063,351 unregistered shares of common stock pursuant to the provisions of certain convertible notes which require additional shares of common stock to be issued if the trading price, as defined, declines during the 23-trading day period after conversions shares are delivered to the convertible noteholder.

In a series of transactions, during the year ended December 31, 2016, convertible promissory notes with an aggregate principal balance of \$715,000, including accrued interest thereon were converted into 6,745,724 unregistered shares of common stock. The Company incurred a loss on these conversions amounting to \$143,000 for the year ended December 31, 2016. Included in this loss is \$37,000 related to the issuance of 315,716 unregistered shares of common stock pursuant to the provisions of certain convertible notes which require additional shares of common stock to be issued if the trading price, as defined, declines during the 23-trading day period after conversions shares are delivered to the convertible noteholder.

At December 31, 2017, the Company had reserved 46,037,325 shares of its unissued common stock for conversion of convertible promissory notes.

The Company made the private placement of these securities in reliance upon Section 4(2) of the Securities Act of 1933, as amended (the “Act”), Rule 506 of Regulation D, and the rules and regulations promulgated thereunder, and/or upon any other exemption from the registration requirements of the Act, as applicable.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

15. CAPITAL STOCK

Common Stock

The Company's common stock is traded on OTC Pink Sheets. Investors can find real-time quotes and market information for the Company at www.otcmarkets.com market system under the ticker symbol COTE. The Company is authorized to issue up to 120,000,000 shares of common stock, par value, \$0.0001 per share (the "Common Stock").

At the close of trading in the Company's common stock on December 1, 2017, a 1:200 reverse stock split of all of the Company's shares of common stock, shares of preferred stock, common stock warrants and stock options became effective. Shareholders were paid cash-in-lieu of any fractional shares that would have resulted in connection with the reverse stock split. The reverse stock split was approved by the board of directors and the George J. Coates, the majority stockholder by means of a written consent. For purposes of presenting the accompanying financial statements for the years ended December 31, 2017 and 2016, all balances, transactions and calculations were restated on a pro forma basis as if the reverse stock split occurred prior to the beginning of the year ended December 31, 2016.

The following common stock transactions occurred during the year ended December 31, 2017:

- In a series of transactions, convertible promissory notes with an aggregate principal balance of \$767,000, including accrued interest thereon, were converted into 21,879,384 unregistered shares of common stock.
- In May 2017, the Company issued 44,443 shares of stock to a lender as payment for interest due on a \$25,000 short term loan which was repaid in full. The amount of such interest was \$4,000.
- In February 2017, Barry C. Kaye converted 6.86 shares of Series B Convertible Preferred Stock into 6,860 restricted shares of common stock.
- Fractional shares resulting from the reverse stock split, amounting to the equivalent of 97 post-reverse stock split shares of common stock were canceled as the holders were paid cash in lieu of receiving such fractional shares.

The following common stock transactions occurred during the year ended December 31, 2016:

- In a series of transactions during the year ended December 31, 2016, convertible promissory notes with an aggregate principal balance of \$715,000, including accrued interest thereon, were converted into 6,745,724 unregistered shares of common stock.
- In a series of transactions during the year ended December 31, 2016, the Company issued 862,470 registered shares of its common stock to Southridge Partners II LP ("Southridge") under the 2015 EP Agreement, as discussed in Note 18, in consideration for \$199,000. The proceeds were used for general working capital. The Company is required to deliver shares of its common stock to Southridge with each Put Notice based on the dollar amount of the Put Notice and the trading price of the common stock.
- During the year ended December 31, 2016, the Company made private sales, pursuant to stock purchase agreements, of 575,000 unregistered shares of its common stock and 575,000 common stock warrants to purchase one unregistered share of its common stock at exercise prices ranging from \$0.10 to \$0.20 per share, in consideration for \$75,000.
- During the year ended December 31, 2016, George J. Coates and Barry C. Kaye converted 575.03 shares and 14.88 shares of Series B into 575,030 and 14,880 restricted shares of the Company's common stock, respectively.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

- During the year ended December 31, 2016, in a series of transactions by mutual consent between the Company and George J. Coates, \$472,000 principal amount of promissory notes, including accrued interest of \$315,000, was converted into 2,852,291 restricted, unregistered shares of the Company's common stock at conversion rates ranging from \$0.12 to \$0.22 per share, which was the closing trading price of the stock on the respective dates of conversion. Effective December 31, 2016, by mutual agreement between the Company and Mr. Coates, the \$315,000 portion of these conversions that represented accrued interest was rescinded. Accordingly, Mr. Coates returned 1,795,699 shares of the Company's common stock which were restored to authorized, unissued status and the \$315,000 was restored on the Company's books as unpaid, accrued interest at December 31, 2016.

At December 31, 2017, the Company had reserved 6,428,895 shares of its common stock to cover the potential conversion of convertible securities and exercise of stock options and warrants.

Preferred Stock and Anti-dilution Rights

The Company is authorized to issue 350,000 shares of preferred stock, par value, \$0.001 per share (the "Preferred Stock"). The Company may issue any class of the Preferred Stock in any series. The board is authorized to establish and designate series, and to fix the number of shares included in each such series and the relative rights, preferences and limitations as between series, provided that, if the stated dividends and amounts payable on liquidation are not paid in full, the shares of all series of the same class shall share ratably in the payment of dividends including accumulations, if any, in accordance with the sums which would be payable on such shares if all dividends were declared and paid in full, and in any distribution of assets other than by way of dividends in accordance with the sums which would be payable on such distribution if all sums payable were discharged in full. Shares of each such series when issued shall be designated to distinguish the shares of each series from shares of all other series.

There are two series of Preferred Stock that have been designated to date from the total 100,000,000 authorized shares of Preferred Stock. These are as follows:

- Series A Preferred Stock, par value \$0.001 per share ("Series A"), 5,000 shares designated, 3,601 and 250 shares issued and outstanding as of December 31, 2017 and 2016, respectively. Shares of Series A entitle the holder to 10,000 votes per share on all matters brought before the shareholders for a vote. These shares are not entitled to receive dividends or share in distributions of capital and have no liquidation preference. All outstanding shares of Series A are owned by George J. Coates, which entitle him to 2,500,000 million votes in addition to his voting rights from the shares of common stock and the shares of Series B he holds.

The Company may issue additional shares of Series A Preferred Stock to Mr. Coates if deemed necessary to provide anti-dilution protection and maintain his ownership percentage of eligible votes.

Issuances of shares of Series A to George J. Coates do not have any effect on the share of dividends or liquidation value of the holders of the Company's common stock. However, the voting rights of the holders of the Company's common stock are diluted with each issuance.

During the year ended December 31, 2017, the Company issued 3,351 shares of Series A with an estimated fair value of \$17,000 to George J. Coates, representing anti-dilution shares to restore Mr. Coates' percentage of eligible votes to 85.7%. This percentage increased during the year ended December 31, 2016, as a result of Mr. Coates' acquisition of 1,056,592 shares of common stock upon conversion of promissory notes from the Company which he held with a principal amount of \$157,000 and 575,030 shares of common stock upon conversion of 575.03 shares of Series B Convertible Preferred Stock, par value \$0.001 per share ("Series B").

Coates International, Ltd.
Notes to Financial Statements – (Continued)

- Series B Convertible Preferred Stock, par value \$0.001 per share, 345,000 shares designated and 228,471 and 81,263 shares issued and outstanding as of December 31, 2017 and 2016, respectively. Shares of Series B do not earn any dividends and may be converted at the option of the holder at any time beginning on the second annual anniversary date after the date of issuance into 1,000 unregistered shares of the Company’s common stock. Holders of the Series B are entitled to one thousand votes per share held on all matters brought before the shareholders for a vote.

In the event that either (i) the Company enters into an underwriting agreement for a secondary public offering of securities, or (ii) a change in control of the Company is consummated representing 50% more of the then outstanding shares of Company’s common stock, plus the number of shares of common stock into which any convertible preferred stock is convertible, regardless of whether or not such shares are otherwise eligible for conversion, then the Series B may be immediately converted at the option of the holder into restricted shares of the Company’s common stock.

The Company provides anti-dilution protection for certain of its key employees. For each new share of common stock issued by the Company to non-Coates family members in the future, additional shares of Series B will be issued to maintain their fixed ownership percentage of the Company. The fixed ownership percentage is adjusted for acquisitions and dispositions of common stock, not related to conversions of Series B Convertible Preferred Stock, by these key employees. At December 31, 2017, the fixed ownership percentages were as follows:

1. George J. Coates – 80.63%
2. Gregory G. Coates – 6.10%
3. Barry C. Kaye – 0.048%

These anti-dilution provisions do not apply to new shares of common stock issued in connection with exercises of employee stock options, a secondary public offering of the Company’s securities or a merger or acquisition.

The number of shares of Series B outstanding at December 31, 2017, consisted of 211,105, 16,130 and 1,236 shares held by George J. Coates, Gregory G. Coates and Barry C. Kaye, respectively. The number of shares of Series B that become convertible into common stock, by year are as follows:

	Total	2018	2019
George J. Coates	211,105	74,506	136,599
Gregory G. Coates	16,130	5,484	10,646
Barry C. Kaye	1,236	413	823

During the year ended December 31, 2017, 136,599, 10,646 and 823 shares of Series B were issued to George J. Coates, Gregory G. Coates and Barry C. Kaye, respectively, having an estimated fair value of \$5,204,000, \$423,000 and \$27,000, respectively. These amounts were included in stock-based compensation expense in the accompanying statement of operations for the year ended December 31, 2017.

During the year ended December 31, 2017, Barry C. Kaye converted 6.86 shares of Series B into 6,860 shares of the Company’s common stock, respectively.

During the year ended December 31, 2016, 59,694, 4,360 and 335 shares of Series B were issued to George J. Coates, Gregory G. Coates and Barry C. Kaye, respectively, having an estimated fair value of \$6,386,000, \$455,000 and \$35,000, respectively. These amounts were included in stock-based compensation expense in the accompanying statement of operations for the year ended December 31, 2016.

During the year ended December 31, 2016, George J. Coates and Barry C. Kaye converted 575.03 shares and 14.88 shares of Series B into 575,030 and 14,880 shares of the Company’s common stock, respectively.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

In the event that all of the 228,471 shares of Series B outstanding at December 31, 2017, were converted once the conversion restrictions lapse, an additional 228,471,000 new unregistered shares of common stock would be issued. On a pro forma basis, based on the number of shares of common stock outstanding at December 31, 2017, this would dilute the ownership percentage of non-affiliated stockholders from 91.8% to 12.8%.

To the extent that additional shares of Series B are issued under the anti-dilution plan, the non-affiliated stockholders' percentage ownership of the Company would be further diluted.

16. INCOME (LOSS) PER SHARE

At December 31, 2017, there were stock warrants outstanding to purchase 751,725 shares of common stock at exercise prices ranging from \$0.10 to \$13.50 per share, vested stock options outstanding to acquire 62,350 shares of common stock at exercise prices ranging from \$5.60 to \$88.00 per share and \$186,000 of convertible promissory notes outstanding, which on a pro forma basis assuming all such promissory notes were converted into shares of common stock using the contractual conversion price determined as of the close of trading on the last trading day of 2017, would have been convertible into 17,275,869 shares of common stock.

At December 31, 2016, there were stock warrants outstanding to purchase 751,725 shares of common stock at exercise prices ranging from \$0.10 to \$24.00 per share, vested stock options outstanding to acquire 62,350 shares of common stock at exercise prices ranging from \$5.60 to \$88.00 per share and \$99,000 of convertible promissory notes outstanding, which on a pro forma basis assuming all such promissory notes were converted into shares of common stock using the contractual conversion price determined as of the close of trading on the last trading day of 2016, would have been convertible into 1,596,774 shares of common stock.

For the years ended December 31, 2017 and 2016, none of the potentially issuable shares of common stock were assumed to be converted because the Company incurred a net loss in those periods and the effect of including them in the calculation would have been anti-dilutive.

17. STOCK OPTIONS

The Company's 2006 Stock Option and Incentive Plan (the "Stock Plan") was adopted by the Company's board in October 2006. In September 2007, the Stock Plan, by consent of George J. Coates, majority shareholder, was adopted by our shareholders. The Stock Plan provides for the grant of stock-based awards to employees, officers and directors of, and consultants or advisors to, the Company and its subsidiaries, if any. Under the Stock Plan, the Company may grant options that are intended to qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended ("ISO's"), options not intended to qualify as incentive stock options ("non-statutory options"), restricted stock and other stock-based awards. ISO's may be granted only to employees of the Company. After adjusting for the reverse stock split, a total of 62,500 shares of common stock may be issued upon the exercise of options or other awards granted under the Stock Plan. The maximum number of shares with respect to which awards may be granted during any one year to any employee under the Stock Plan shall not exceed 25% of the 62,500 shares of common stock covered by the Stock Plan. All of the shares of common stock authorized under the Stock Plan have been granted and no further grants may be awarded thereunder.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

The Company established a 2014 Stock Option and Incentive Plan (the “2014 Stock Plan”) which was adopted by the Company’s board on May 30, 2014. On March 2, 2015, the 2014 Stock Plan, by consent of George J. Coates, majority shareholder, was adopted by our shareholders. The 2014 Stock Plan provides for the grant of stock-based awards to employees, officers and directors of, and consultants or advisors to, the Company and its subsidiaries, if any. Under the 2014 Stock Plan, the Company may grant ISO’s, non-statutory options, restricted stock and other stock-based awards. ISO’s may be granted only to employees of the Company. After adjusting for the reverse stock split, a total of 250,000 shares of common stock may be issued upon the exercise of options or other awards granted under the 2014 Stock Plan. The maximum number of shares with respect to which awards may be granted during any one year to any employee under the 2014 Stock Plan shall not exceed 25% of the 250,000 shares of common stock covered by the 2014 Stock Plan. At December 31, 2017, none of the shares of common stock authorized under the 2014 Stock Plan had been granted as stock options or awarded.

The Stock Plan and the 2014 Stock Plan (the “Stock Plans”) are administered by the board and the Compensation Committee. Subject to the provisions of the Stock Plans, the board and the Compensation Committee each has the authority to select the persons to whom awards are granted and determine the terms of each award, including the number of shares of common stock subject to the award. Payment of the exercise price of an award may be made in cash, in a “cashless exercise” through a broker, or if the applicable stock option agreement permits, shares of common stock, or by any other method approved by the board or Compensation Committee. Unless otherwise permitted by the Company, awards are not assignable or transferable except by will or the laws of descent and distribution.

Upon the consummation of an acquisition of the business of the Company, by merger or otherwise, the board shall, as to outstanding awards (on the same basis or on different bases as the board shall specify), make appropriate provision for the continuation of such awards by the Company or the assumption of such awards by the surviving or acquiring entity and by substituting on an equitable basis for the shares then subject to such awards either (a) the consideration payable with respect to the outstanding shares of common stock in connection with the acquisition, (b) shares of stock of the surviving or acquiring corporation, or (c) such other securities or other consideration as the board deems appropriate, the fair market value of which (as determined by the board in its sole discretion) shall not materially differ from the fair market value of the shares of common stock subject to such awards immediately preceding the acquisition. In addition to, or in lieu of the foregoing, with respect to outstanding stock options, the board may, on the same basis or on different bases as the board shall specify, upon written notice to the affected optionees, provide that one or more options then outstanding must be exercised, in whole or in part, within a specified number of days of the date of such notice, at the end of which period such options shall terminate, or provide that one or more options then outstanding, in whole or in part, shall be terminated in exchange for a cash payment equal to the excess of the fair market value (as determined by the board in its sole discretion) for the shares subject to such stock options over the exercise price thereof. Unless otherwise determined by the board (on the same basis or on different bases as the board shall specify), any repurchase rights or other rights of the Company that relate to a stock option or other award shall continue to apply to consideration, including cash, that has been substituted, assumed or amended for a stock option or other award pursuant to these provisions. The Company may hold in escrow all or any portion of any such consideration in order to effectuate any continuing restrictions.

The board may at any time provide that any stock options shall become immediately exercisable in full or in part, that any restricted stock awards shall be free of some or all restrictions, or that any other stock-based awards may become exercisable in full or in part or free of some or all restrictions or conditions, or otherwise realizable in full or in part, as the case may be.

The board or Compensation Committee may, in its sole discretion, amend, modify or terminate any award granted or made under the Stock Plan, so long as such amendment, modification or termination would not materially and adversely affect the participant.

No stock options were issued during the years ended December 31, 2017 and 2016.

There were no unvested stock options outstanding at December 31, 2017.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

A summary of the activity in the Company's Stock Option Plan is as follows (all amounts adjusted to the reverse stock split, as if it had occurred on January 1, 2016):

	Exercise Price Per Share	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Exercise Price	Weighted Average Fair Value Per Stock Option at Date of Grant
Balance, 1/1/16	\$ 5.60 – \$88.00	62,350	11	62,350	\$ 36.34	\$ 33.84
Stock options vested		-		-		
Stock options expired		-		-		
Balance, 12/31/16	\$ 5.60 – 88.00	62,350	10	62,350	36.34	33.84
Stock options vested		-		-		
Stock options expired		-		-		
Balance, 12/31/17	\$ 5.60 – \$88.00	62,350	9	62,350	\$ 36.34	\$ 33.84

The weighted average fair value of the Company's stock options was estimated using the Black-Scholes option pricing model which requires highly subjective assumptions including the expected stock price volatility. These assumptions were as follows:

• Historical stock price volatility	139% - 325%
• Risk-free interest rate	0.21%-4.64%
• Expected life (in years)	4
• Dividend yield	0.00

The valuation assumptions were determined as follows:

- Historical stock price volatility: The Company utilized the volatility in the trading of its common stock computed for the 12 months of trading immediately preceding the date of grant.
- Risk-free interest rate: The Company bases the risk-free interest rate on the interest rate payable on U.S. Treasury securities in effect at the time of the grant for a period that is commensurate with the assumed expected option life.
- Expected life: The expected life of the options represents the period of time options are expected to be outstanding. The Company has very limited historical data on which to base this estimate. Accordingly, the Company estimated the expected life based on its assumption that the executives will be subject to frequent blackout periods during the time that the stock options will be exercisable and based on the Company's expectation that it will complete its research and development phase and commence its initial production phase. The vesting period of these options was also considered in the determination of the expected life of each stock option grant.
- No expected dividends.

The following table sets forth information with respect to stock options outstanding at December 31, 2017:

Name	Title	Number of Shares of Common Stock Underlying Stock Options ⁽¹⁾	Exercise Price per Share	Option Expiration Date
George J. Coates	Chairman, Chief Executive Officer and President	5,000	\$ 88.00	10/23/2021
		250	80.00	11/4/2024
		1,375	80.00	11/17/2025
		9,000	50.00	7/25/2026
		9,075	12.00	6/24/2027
Gregory G. Coates	Director and President, Technology Division	2,500	88.00	10/23/2021
		9,000	48.00	8/8/2026
		1,757	5.60	4/30/2029
Barry C. Kaye	Director, Treasurer and Chief Financial Officer	625	88.00	10/18/2021
		500	8.40	2/11/2028
		1,758	5.60	4/30/2029
Dr. Frank J. Adipietro	Non-employee Director	125	88.00	3/28/2022
		250	80.00	11/3/2024
		425	80.00	11/17/2025
		3,335	12.00	6/24/2027
		125	88.00	3/28/2022
Dr. Richard W. Evans	Consultant	250	78.00	12/27/2024
		1,000	50.00	2/15/2026
		15,625	12.00	6/20/2027
Dr. Michael J. Suchar	Consultant	125	88.00	3/28/2022
Richard Whitworth	Non-employee Director	125	88.00	3/28/2022
William Wolf, Esq.	Outside General Counsel	125	88.00	4/4/2022

⁽¹⁾ All outstanding stock options are fully vested.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

18. EQUITY PURCHASE AND REGISTRATION RIGHTS AGREEMENTS

In July 2015, the Company entered into an equity purchase agreement (the “EP Agreement”) with Southridge Partners II LP (“Southridge”). Pursuant to the terms of the EP Agreement, Southridge committed to purchase up to 1,025,000 shares of the Company’s common stock. In December 2016, the EP Agreement automatically terminated because Southridge had purchased all 1,025,000 registered shares of common stock under the EP Agreement.

The terms of the EP Agreements provided that the purchase price for the shares of common stock shall be equal to 94% of the lowest closing price of the common stock during the ten trading days that comprise the defined pricing period. The Company was entitled to exercise a Put to Southridge by delivering a Put Notice, which required Southridge to remit the dollar amount stated in the Put Notice at the end of the pricing period, provided, however, that for each day during the pricing period, if any, that the daily closing price of the Company’s common stock was below the Floor Price, if any, stipulated in the Put Notice issued by the Company, then the dollar amount of the Put would be reduced by 10% for each such day.

The Company also entered into a registration rights agreement (the “Registration Rights Agreement”) with Southridge, pursuant to which the Company filed a registration statement with the SEC covering 1,025,000 shares of common stock underlying the EP Agreement, which was declared effective August 5, 2015.

In January 2017, the Company received proceeds of \$43,000 from sales of 380,707 registered shares of common stock at the end of 2016, under the EP Agreement. During the year ended December 31, 2016, the Company sold 862,470 registered shares of common stock to Southridge and received proceeds of \$156,000 under the EP Agreement.

19. INCOME TAXES

Deferred income taxes are determined using the liability method for the temporary differences between the financial reporting basis and income tax basis of the Company’s assets and liabilities. Deferred income taxes are measured based on the tax rates expected to be in effect when the temporary differences are included in the Company’s tax return. Deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases.

Deferred tax assets decreased by (\$4,273,000) and increased by \$3,340,000 for the years ended December 31, 2017 and 2016, respectively. The decrease in 2017 primarily resulted from a reduction in the corporate income tax rate from 34% to 21% under Tax Cuts and Jobs Act of 2017, partially offset by a \$1,609,000 increase in deferred tax assets. These amounts were fully offset by a corresponding (decrease) increase in the tax valuation allowance resulting in no net change in deferred tax assets, respectively, during these periods.

No liability for unrecognized tax benefits was required to be reported at December 31, 2017 and 2016. Based on the Company’s evaluation, it has concluded that there are no significant uncertain tax positions requiring recognition in the Company’s financial statements. The Company’s evaluation was performed for the tax years ended 2013 through 2016, the only periods subject to examination. The Company believes that its income tax positions and deductions will be sustained on audit and does not anticipate that adjustments, if any, will result in a material change to its financial position. For the years ended December 31, 2017 and 2016, there were no penalties or interest related to the Company’s income tax returns.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

Total deferred tax assets and valuation allowances are as follows at December 31:

	2017	2016
Current deferred tax asset - inventory reserve	\$ 137,000	\$ 195,000
Non-Current Deferred Tax Assets:		
Stock-based compensation expense	8,639,000	10,022,000
Net operating loss carryforwards	5,091,000	7,558,000
Deferred compensation not paid within 2.5 months	363,000	509,000
Accrued liabilities not paid	313,000	466,000
Accrued interest on notes to related parties	163,000	199,000
Total long-term deferred tax assets	<u>14,569,000</u>	<u>18,784,000</u>
Total deferred tax assets	14,706,000	18,979,000
Less: valuation allowance	<u>(14,706,000)</u>	<u>(18,979,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

The differences between income tax (benefit) provision in the financial statements and the income tax (benefit) provision computed at the U.S. Federal statutory rate of 21% and 34% at December 31 2017 and 2016, respectively, are as follows:

	2017	2016
Federal tax provision at the statutory rate	21.0%	34.0%
State income tax benefit, net of federal benefit	(0.8)	(0.9)
Stock-based compensation expense	(19.0)	(29.7)
Deferred compensation not paid within 2.5 months	(1.2)	0.6
Accrued interest not deductible for tax return purposes	(3.3)	(3.4)
Net change in net operating loss carryforwards	29.8	(7.2)
Loss on conversion of convertible notes	(0.9)	(1.1)
Increase in estimated fair value of embedded derivative liabilities	(0.7)	(0.6)
Accrued liabilities not deductible for tax return purposes	<u>0.2</u>	<u>(0.1)</u>
Total	25.1	(8.4)
Valuation allowance	<u>(25.1)</u>	<u>8.4</u>
Effective tax rate	<u>0.0%</u>	<u>0.0%</u>

At December 31, 2017, the Company had available, \$20,717,000 of net operating loss carryforwards which may be used to reduce future federal taxable income, expiring between 2018 and 2037. At December 31, 2017, the Company had available \$10,294,000 of net operating loss carryforwards which may be used to reduce future state taxable income, expiring between 2029 and 2037.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

20. RELATED PARTY TRANSACTIONS

Licensing Agreement for CSR[®] System Technology

The Company's intellectual property rights for the CSR[®] System Technology are derived from the licensing agreement with George J. Coates and Gregory G. Coates, as more fully discussed in Note 4. The Company pays for all costs of new patent filings and patent maintenance on intellectual properties licensed to it by George J. Coates and Gregory G. Coates. For the years ended December 31, 2017 and 2016, these costs amounted to \$32,000 and \$39,000, respectively.

Non-Exclusive distribution sublicense to Renown Power Development, Ltd.

The Company has granted a non-exclusive distribution sublicense to Renown, as more fully discussed in Note 6. Renown is controlled by James Pang, the Company's exclusive liaison agent in China.

Issuances of Common Stock upon Conversion of Series B Convertible Preferred Stock

Issuances of common stock to related parties upon conversion of Series B Convertible Preferred Stock during the years ended December 31, 2017 and 2016, is discussed in detail in Note 15.

Issuances of Promissory Notes to Related Parties

Issuances of promissory notes to related parties during the years ended December 31, 2017 and 2016, are discussed in detail in Note 13.

Promissory notes issued to George J. Coates, Bernadette Coates and an employee are payable on demand and provide for interest at the rate of 17% per annum, compounded monthly. The promissory note issued to Gregory G. Coates is non-interest bearing, however, the Company imputes interest at a rate of 10% per annum, which has been charged to interest expense in the accompanying statements of operations.

At December 31, 2017, accrued, unpaid interest on outstanding promissory notes to related parties, aggregated \$414,000.

Stock Options

Stock options previously granted to related parties, all of which are fully vested are more fully discussed in Note 17.

Issuances and Conversions of Preferred Stock

Shares of Series A Preferred Stock awarded to George J. Coates during the years ended December 31, 2017 are discussed in detail in Note 15.

Shares of Series B Convertible Preferred Stock awarded to George J. Coates, Gregory G. Coates and Barry C. Kaye and shares converted during the year ended December 31, 2017 and 2016, are discussed in detail in Note 15.

Personal Guaranty and Stock Pledge

In connection with the Company's mortgage loan on the Company's headquarters facility, George J. Coates has pledged certain of his shares of common stock of the Company to the extent required by the lender and provided a personal guaranty as additional collateral.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

Compensation and Benefits Paid

The approximate amount of compensation and benefits, all of which were approved by the board, paid to George J. Coates, Gregory G. Coates and Bernadette Coates, exclusive of stock-based compensation for unregistered, restricted shares of Preferred Stock awarded to George J. Coates and Gregory G. Coates and non-cash, stock-based compensation for employee stock options granted to Gregory G. Coates is summarized as follows:

	For the Year Ended,	
	2017	2016
George J. Coates (a) (b)	\$ 26,000	\$ 16,000
Gregory G. Coates (c) (d) (e)	58,000	139,000
Bernadette Coates (f)	-0-	5,000

- (a) For the years ended December 31, 2017 and 2016, George J. Coates earned additional base compensation of \$240,000 and \$250,000, respectively, payment of which is being deferred until the Company has sufficient working capital. At December 31, 2017 and 2016, the total amount of deferred compensation was \$1,221,000 and \$981,000, respectively. These amounts are included in deferred compensation in the accompanying balance sheets at December 31, 2017 and 2016.
- (b) During the year ended December 31, 2017, the Company issued 3,351 shares of Series A Preferred Stock with an estimated fair value of \$17,000 to George J. Coates representing anti-dilution shares to restore Mr. Coates' percentage of eligible votes to 85.7%.
- (c) During the year ended December 31, 2017 and 2016, George J. Coates was awarded 136,599 and 59,694 shares of Series B Convertible Preferred Stock, respectively, with an estimated fair value of \$5,204,000 and \$6,386,000, respectively, for anti-dilution. Each share of Series B Convertible Preferred Stock becomes convertible into 1,000 shares of common stock at any time after the second anniversary of the date of issuance.
- (d) For the years ended December 31, 2017 and 2016, Gregory G. Coates earned additional base compensation of \$110,000 and \$33,000, respectively, payment of which is being deferred until the Company has sufficient working capital. At December 31, 2017 and 2016, the total amount of deferred compensation was \$143,000 and \$33,000, respectively. These amounts are included in deferred compensation in the accompanying balance sheets at December 31, 2017 and 2016.
- (e) During the years ended December 31, 2017 and 2016, Gregory G. Coates was awarded 10,646 and 4,360 shares of Series B Convertible Preferred Stock with an estimated fair value of \$423,000 and \$455,000, respectively, for anti-dilution. Each share of Series B Convertible Preferred Stock becomes convertible into 1,000 shares of common stock at any time after the second anniversary of the date of issuance.
- (f) For the year ended December 31, 2016, Bernadette Coates, who retired at the end of third quarter of 2016, earned additional base compensation of \$50,000, respectively, payment of which is being deferred until the Company has sufficient working capital. At December 31, 2017 and 2016, the total amount of deferred compensation was \$242,000. These amounts are included in deferred compensation in the accompanying balance sheets at December 31, 2017 and 2016.

During the years ended December 31, 2017 and 2016, Barry C. Kaye, Treasurer and Chief Financial Officer was paid compensation of \$63,000 and \$6,000, respectively. For the years ended December 31, 2017 and 2016, Mr. Kaye earned compensation of \$113,000 and \$102,000, respectively, which was not paid and is being deferred until the Company has sufficient working capital to remit payment to him. During the year ended December 31, 2016, the Company agreed to accrue interest on the balance of his deferred compensation retroactive to when it began being deferred in May 2012, and, accordingly, recorded interest expense at the rate of 17% per annum, of \$105,000. This amount is included in interest expense in the accompanying statement of operations for the year ended December 31, 2016. Interest continues to be accrued on the unpaid balance. During the year ended December 31, 2017, interest accrued on Mr. Kaye's deferred compensation amounted to \$60,000. At December 31, 2017, the total amount of Mr. Kaye's unpaid, deferred compensation, including accrued interest thereon, was \$418,000. This amount is included in accounts payable and accrued liabilities in the accompanying balance sheet at December 31, 2017. During the years ended December 31, 2017 and 2016, Barry C. Kaye was awarded 823 and 335 shares of Series B Convertible Preferred Stock, respectively, with an estimated fair value of \$27,000 and \$35,000, respectively, for anti-dilution. Each share of Series B Convertible Preferred Stock becomes convertible into 1,000 shares of common stock at any time after the second anniversary of the date of issuance.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

At December 31, 2017, the Company owed deferred compensation to an employee in the amount of \$16,000, payment of which is being deferred until the Company has sufficient working capital. This amount is included in deferred compensation in the accompanying balance sheet at December 31, 2017.

21. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table summarizes the Company's contractual obligations and commitments at December 31, 2017, all of which are payable during the year ended December 31, 2018:

Deferred compensation	\$ 1,621,322
Promissory notes to related parties	1,472,409
Mortgage loan payable	1,273,158
Convertible promissory notes	186,444
Total	<u>\$ 4,553,333</u>

22. LITIGATION AND CONTINGENCIES

The Company is not a party to any litigation that is material to its business.

23. RECENTLY ISSUED ACCOUNTING STANDARDS

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled to when products are transferred to customers. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date, which defers the effective date of ASU 2014-09 for one year and permits early adoption. Accordingly, the Company may adopt the standard in either its first quarter of 2018 or 2019.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing ("ASU 2016-10"), which amends the guidance in ASU 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property. The Company will adopt ASU 2016-10 with ASU 2014-09. The Company is currently evaluating the impact of adopting the new revenue recognition standard, as amended, but does not expect it to have a material impact on its financial statements.

Stock Compensation

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718), which simplified certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification in the statement of cash flows. ASU 2016-09 will be effective for the Company beginning in its first quarter of 2018. The Company is currently evaluating the impact of adopting the new stock compensation standard but does not expect it to have a material impact on its financial statements.

Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10) ("ASU 2016-01"), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Company beginning in its first quarter of 2019. The Company does not believe the adoption of the new financial instruments standard will have a material impact on its financial statements.

Coates International, Ltd.
Notes to Financial Statements – (Continued)

24. SUBSEQUENT EVENTS

Section 3(a)10 Exempt Securities Transaction

On March 19, 2018, the Company entered into a Settlement Agreement and Stipulation (the “Settlement Agreement”) with Livingston Asset Management LLC, a Florida limited liability company (“LAM”), pursuant to which the Company agreed to issue common stock to LAM in exchange for the settlement of \$69,000 (the “Settlement Amount”) of past-due obligations and accounts payable of the Company. LAM purchased the obligations and accounts payable from certain vendors of the Company as described below.

On April 2, 2018, the Circuit Court of Baltimore County, Maryland (the “Court”), entered an order (the “LAM Order”) approving, among other things, the fairness of the terms and conditions of an exchange in reliance upon an exemption from registration provided for in Section 3(a)(10) of the Securities Act of 1933, as amended (the “Securities Act”), in accordance with a stipulation of settlement, pursuant to the Settlement Agreement between the Company and LAM. Pursuant to the court order, LAM commenced an action against the Company to recover an aggregate of \$69,000 of past-due obligations and accounts payable of the Company, which LAM had purchased from certain vendors of the Company pursuant to the terms of separate claim purchase agreements between LAM and each of such vendors (the “LAM Assigned Accounts”). The LAM Assigned Accounts relate to certain accounting services provided to the Company and a supplier invoice. The Settlement Agreement became effective and binding upon the Company and LAM upon execution of the Order by the Court on April 2, 2018.

Pursuant to the terms of the Settlement Agreement approved by the LAM Order, on April 2, 2018, the Registrant agreed to issue shares to LAM (the “LAM Settlement Shares”) of the Registrant’s common stock at a 30% discount from the selling price of the settlement shares sold by LAM, as defined in the settlement agreement. The Settlement Agreement provides that the LAM Settlement Shares will be issued in one or more tranches, as necessary, sufficient to satisfy the settlement amount through the issuance of freely trading securities issued in reliance upon an exemption provided for in Section 3 (a)(10) of the Securities Act. The parties reasonably estimate that the fair market value of the LAM Settlement Shares to be received by LAM is equal to approximately \$99,000. Additional tranche requests shall be made as requested by LAM until the LAM Settlement Amount is paid in full.

The Settlement Agreement provides that in no event shall the number of shares of Common Stock issued to LAM or its designee in connection with the Settlement Agreement, when aggregated with all other shares of Common Stock then beneficially owned by LAM and its affiliates (as calculated pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the rules and regulations thereunder), result in the beneficial ownership by LAM and its affiliates (as calculated pursuant to Section 13(d) of the Exchange Act and the rules and regulations thereunder) at any time of more than 9.99% of the Common Stock.

The Company is required to reserve a sufficient number of shares of its Common Stock to provide for issuances thereof, upon full satisfaction of the Settlement Amount.

On April 6, 2018, the Company issued 4,480,000 shares of Common Stock to LAM, upon which LAM paid \$40,000 of the Settlement Amount of the Company’s past due accounts payable purchased by LAM in accordance with the Settlement Agreement.

Certificate of Validation

On April 2, 2018, the Company filed a certificate of validation with the state of Delaware, which had retroactive effect to the close of trading in the Corporation’s common stock on December 1, 2017, in order to:

- (i) cure certain technical, procedural defects related to the 1:200 reverse stock split, which became effective at the close of trading on December 31, 2017,
- (ii) clarify that the reverse stock split effected a 1:200 reduction in the number of the Corporation’s authorized shares of common stock, from 12,000,000,000 to 60,000,000, with retroactive effect to the close of trading on December 1, 2017,

Coates International, Ltd.
Notes to Financial Statements – (Continued)

- (iii) clarify that the reverse stock split effected 1:200 reduction in the number of authorized shares of the Corporation's preferred stock, from 100,000,000 to 500,000 with retroactive effect to the close of trading on December 1, 2017; and,
- (iv) concurrently therewith, further amend the Corporation's Amended Certificate of Articles of Incorporation with the State of Delaware to increase the number of the Corporation's authorized shares of common stock, par value \$0.0001 from 60,000,000 to 120,000,000 and reduce the number of authorized shares of the Corporation's preferred stock, par value \$0.001 from 500,000 to 350,000.

The above corporate action was authorized by the board of directors on February 28, 2018, and by means of obtaining the written consent of George J. Coates, the sole majority stockholder, was approved by the shareholders on March 1, 2018.

Issuance of Convertible Promissory Notes

During the period from January 1, 2018 to April 13, 2018, the Company issued convertible promissory notes and received aggregate net proceeds of \$265,000, after transaction costs. The holders may convert the convertible note at any time beginning six months after funding, into shares of the Company's common stock at a conversion price ranging from 62% to 70% of the trading price, as defined, of the Company's common stock over a specified trading period prior to the date of conversion.

Conversion of Convertible Promissory Notes

During the period from January 1, 2018 to April 13, 2018, convertible promissory notes with an aggregate balance of \$90,000, including accrued interest thereon, were converted into 9,715,685 unregistered shares of the Company's common stock.

Issuance of Anti-dilution shares

During the period from January 1, 2018 to April 13, 2018, the Company issued 48,915, 3,702 and 290 shares of Series B Convertible Preferred Stock to George J. Coates, Gregory G. Coates and Barry C. Kaye, respectively, representing anti-dilution shares related to newly issued shares of common stock. The estimated fair value of these shares was \$545,000, \$41,000 and \$3,000, respectively.

Repayment of 17% Promissory Notes to Related Parties

During the period from January 1, 2018 to April 13, 2018, the Company partially repaid promissory notes to George J. Coates, Gregory G. Coates, Bernadette Coates and one employee amounting to \$20,000, \$15,000, \$15,000 and \$5,000, respectively. These promissory notes bear interest at the rate of 17% per annum and are payable on demand.

Deferred Compensation

As of April 13, 2018, George J. Coates, Gregory G. Coates and Barry C. Kaye agreed to additional deferral of their compensation amounting to \$72,000, \$22,000, and \$39,000, respectively, and Barry C. Kaye was paid \$35,000 of his deferred compensation bringing their total deferred compensation to \$1,293,000, \$164,000, and \$257,000, respectively.

Compensatory Arrangement with Board Member

In April 2018, the Company entered into a compensatory arrangement with Richard Whitworth, a member of the board of directors, pursuant to which the Company will pay Mr. Whitworth 10% of sales billed and collected from new business acquired as a direct result of Mr. Whitworth's efforts.

**CERTIFICATE OF VALIDATION
OF
COATES INTERNATIONAL LTD.**

Coates International Ltd., a Delaware corporation (the "Corporation"), acting pursuant to Section 204 of the Delaware General Corporation Law (the "DGCL"), in order to validate a defective corporate act in connection with a reverse split of its outstanding stock intended to be implemented on December 1, 2017, hereby certifies as follows:

1. On March 2, 2015, the stockholder holding a majority of the stock of the corporation entitled to vote, voting as a single class, adopted a written consent approving in advance a reverse split of the Corporation's outstanding stock, within a range of possible ratios to be determined by the board of directors, and the Corporation's board of directors thereafter (a) on March 2, 2015, adopted a written consent affirming that a reverse stock split was generally in the best interests of the Corporation and its shareholders, and (b) on November 3, 2017, adopted a written consent approving a 1:200 reverse split of its stock, pursuant to which each 200 shares of stock were to be combined into a single share of stock (the "Reverse Stock Split"), to be effective November 10, 2017, and, as of the same date, the majority stockholder reaffirmed its original authorization and approval.

2. The Reverse Stock Split and the Stock Amendments referred to below, which were intended to be effective immediately following the Reverse Stock Split were defective corporate acts due to the following failures of authorization:

(a) the original directors consents failed to declare the Reverse Stock Split and the filing of a certificate of amendment to be advisable before submitting the matters for consideration by the stockholders, as required by Section 242(b) of the DGCL;

(b) the director consents (i) failed to expressly state that the Reverse Stock Split was a combination of the authorized shares of all classes (the November 3, 2017 board of directors' consent referred only to a corresponding "adjustment" to the preferred stock "in the same ratio"); and (ii) failed to provide for (A) the increase of the authorized post-split common stock from 60,000,000 authorized shares of \$0.0001 par value common stock to 120,000,000 shares authorized shares of \$0.0001 par value common stock to allow for sufficient authorized shares to provide for all of the outstanding common stock, reversed common stock and future issuances, and (B) the decrease of the post-split authorized preferred stock from 500,000 authorized shares of \$0.001 par value preferred stock to 350,000 authorized shares of \$0.001 par value preferred stock (the matters addressed in clauses (ii)(A) and (ii)(B) above, the "Stock Amendments");

(c) the March 2, 2015 stockholder consent, as reaffirmed on November 3, 2017, referred only to a reverse split of the Corporation's common stock without mention of a reverse split of the Corporation's preferred stock and did not approve the specifics of the Reverse Stock Split (i.e., that each 200 of the authorized shares of stock of all classes were to be combined into a single share of stock) and failed to expressly approve the Stock Amendments;

(d) neither the director consents nor the stockholder consent, as ratified, authorized the filing of a certificate of amendment and the Corporation failed to file a certificate of amendment with the Office of the Secretary of State of the State of Delaware to effect the Reverse Stock split and the Stock Amendments, as required by Section 242(a)(3) of the DGCL; and

(e) the directors failed to adopt a resolution modifying the approved effective date of the Reverse Stock Split from the close of trading on November 10, 2017 to the close of trading on December 1, 2017, which is the effective date as of which the Reverse Stock Split was announced and consummated.

3. The Reverse Stock Split and the Stock Amendments have been ratified in accordance with Section 204 of the DGCL, and the filing of a certificate of validation with respect to the Reverse Stock Split and the Stock Amendments has been approved, by the Corporation's board of directors on February 28, 2018 and by the holder of the a majority of the Corporation's issued and outstanding stock entitled to vote, voting as a single class, by written consent pursuant to Section 228 of the DGCL on March 1, 2018.

4. A certificate of amendment containing all of the information required to be included under Sections 242 and 228 of the DGCL to give effect to the Reverse Stock Split, is attached as Exhibit A to this certificate of validation, pursuant to which such certificate of amendment and the Reverse Stock Split shall be deemed to have become effective pursuant Section 204 of the DGCL as of 4:01 p.m. on December 1, 2017.

I, THE UNDERSIGNED, being an authorized officer of the Corporation, and intending this to be an acknowledgement within the meaning of Section 103 of the DGCL, has executed this certificate of validation on this 2nd day of April, 2018.

COATES INTERNATIONAL LTD.

By: /s/ Barry C. Kaye

Barry C. Kaye

Treasurer and Chief Financial Officer

Exhibit A
To Certificate of Validation of Coates International Ltd.

**CERTIFICATE OF AMENDMENT
OF THE RESTATED CERTIFICATE OF INCORPORATION
OF
COATES INTERNATIONAL LTD.**

Coates International Inc., a Delaware corporation (the "Corporation"), DOES HEREBY CERTIFY:

1. The Certificate of Incorporation of the Corporation is hereby amended by striking Article FOURTH in its entirety and replacing it with the following:

FOURTH: The total number of shares of stock that the Corporation shall have authority to issue is One Hundred Twenty Million Three Hundred Fifty Thousand (120,350,000). The classes and aggregate number of shares of each class which the Corporation shall have authority to issue are as follows:

(1) One Hundred Twenty Million (120,000,000) shares of common stock, par value \$0.0001 per share (the "Common Stock"). The terms and provisions of the Common Stock are as follows:

(i) The holders of Common Stock shall be entitled to one vote per share with respect to all corporate matters.

(ii) In case of the liquidation or dissolution of the Corporation, the holders of said shares of Common Stock shall be entitled, after payment or provision for payment of the debts and other liabilities of the Corporation, and subject to the prior rights of the holders of Preferred Stock, to share ratably in the remaining net assets of the Corporation.

(2) Three Hundred Fifty Thousand (350,000) shares of preferred stock, par value \$0.001 per share (the "Preferred Stock"). The Corporation may issue any class of the Preferred Stock in any series. The Board of Directors shall have authority to establish and designate series, and to fix the number of shares included in each such series and the variations in the relative rights, preferences and limitations as between series, provided that, if the stated dividends and amounts payable on liquidation are not paid in full, the shares of all series of the same class shall share ratably in the payment of dividends including accumulations, if any, in accordance with the sums which would be payable on such shares if all dividends were declared and paid in full, and in any distribution of assets other than by way of dividends in accordance with the sums which would be payable on such distribution if all sums payable were discharged in full. Shares of each such series when issued shall be designated to distinguish the shares of each series from shares of all other series.

2. The foregoing amendment reflects the following, each of which shall occur contemporaneously with the effective time of this certificate of amendment:

(a) The Corporation's authorized stock of all classes and series shall be subject to a reverse stock split, such that (i) each 200 of the authorized shares of the Corporation's \$.0001 par value common stock shall be reclassified and combined into a single share of common stock having a par value of \$.0001 per share, (ii) each 200 of the authorized shares of the Corporation's \$.0001 par value Series A Preferred Stock preferred stock shall be reclassified and combined into a single share of Series A Preferred Stock having a par value of \$.0001 per share, (iii) each 200 of the authorized shares of \$.0001 par value Series B Convertible Preferred Stock shall be reclassified and combined into a single share of Series B Convertible Preferred Stock having a par value of \$.0001 per share, and (iv) each 200 of the authorized shares of the Corporation's \$.0001 par value undesignated preferred stock shall be reclassified and combined into a single share of undesignated preferred stock having a par value of \$.0001 per share, with payment in cash to the registered holders of all resulting fractional outstanding shares of stock based on the closing trading price per share of the Corporation's common stock on December 1, 2017; and

(b) Immediately following such stock split, the resulting number of authorized post-split shares of the Corporation's \$.0001 par value common stock shall be increased from 60,000,000 to 120,000,000, and the resulting number of post-split authorized shares of the Corporation's preferred stock will be reduced from 500,000 to 350,000, with 5,000 of such authorized shares of preferred stock being Series A Preferred Stock and 345,000 of such authorized shares of preferred stock being Series B Convertible Preferred Stock.

COATES INTERNATIONAL LTD.

By: /s/ Barry C. Kaye
Barry C. Kaye
Treasurer and Chief Financial Officer

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002.**

I, George J. Coates, President and Chief Executive Officer, certify that:

1. I have reviewed this Annual Report on Form 10-K of Coates International, Ltd.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal control over financial reporting which ARE reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 17, 2018

By: /s/ George J. Coates
George J. Coates
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002.**

I, Barry C. Kaye, Treasurer and Chief Financial Officer, certify that:

1. I have reviewed this Annual Report on Form 10-K of Coates International, Ltd.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 17, 2018

By: /s/ Barry C. Kaye
Barry C. Kaye
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Coates International, Ltd. (the "Company") on Form 10-K for the year ended December 31, 2017 (the "Report"), I, George J. Coates, Chief Executive Officer of the Company, certify, to the best of my knowledge, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 17, 2018

By: /s/ George J. Coates
George J. Coates
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Coates International, Ltd. (the "Company") on Form 10-K for the year ended December 31, 2017 (the "Report"), I, Barry C. Kaye, Chief Financial Officer of the Company, certify, to the best of my knowledge, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 17, 2018

By: /s/ Barry C. Kaye

Barry C. Kaye
Treasurer and Chief Financial Officer
(Principal Financial Officer)