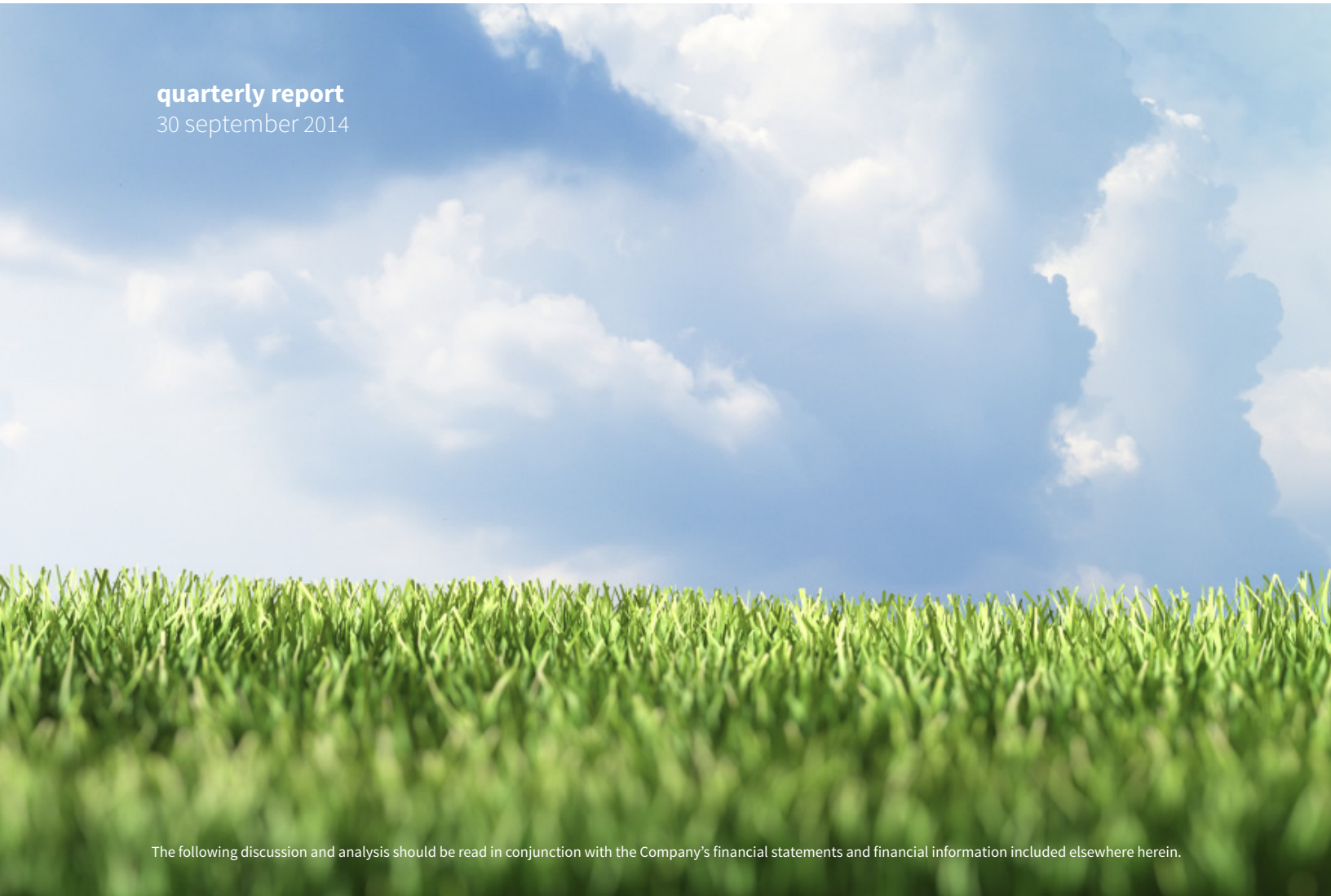
idc

protect the freshness™

quarterly report

30 september 2014



The following discussion and analysis should be read in conjunction with the Company's financial statements and financial information included elsewhere herein.

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management's discussion and analysis

the company and it's mission

International Dispensing Corporation ("IDC" or the "Company") is incorporated in the state of Delaware and its core product, The Answer® tap, was patented in 2002. A flexible packaging R&D company targeting the food and beverage industry, the Company continues to pursue the original vision on which it was founded: to create and market a cost-effective dispensing system that can keep aseptic liquid contents fresh and uncontaminated (shelf-stable) through the entire dispensing cycle (days, weeks, or months, depending on the product) without recourse to refrigeration or preservatives. In recent years, the Company has broadened its scope over the supply chain and expanded its intellectual property in an effort to offer a complete packaging solution to customers. Its official mission statement reads: "To supply our customers innovative, cost effective, environmentally responsible dispensing solutions while delivering value to our shareholders."



message from the chairman

"Due to the tireless efforts and creativity of our President/COO Tom Shaver, the effectiveness of Li Xin, and the dedication our very active advisory board that includes Bill Hickey and Markus Brettschneider, IDC is attacking global markets with world-class professionalism. Thanks to our team and the vision of our game-changing innovations, we have forged significant inroads in the developing world—China, Korea, India, Pakistan, the Middle East, Africa, Mexico, Brazil—both with multinational companies and strategetic partners. This has been a Herculean endeavor, and we believe we are very close."

-Greg Abbott
Founder & Chairman

IDC is dedicated to developing eco-friendly dispensing solutions with a strong commitment to sustainability

the global opportunity

Due primarily to Tetra Pak® and SIG Combibloc®, aseptic cartons account for a significant portion of worldwide retail beverage packaging, with an estimated combined volume of 180 billion cartons generating approximately $24 billion in annual revenue. In almost every country in the world, the aseptic carton is present on the retail shelf.

However, in the growing sectors of foodservice and bulk retail, aseptic packaging is still limited, yielding market position to tubs, pails, large cans, bottles, jars, and many other types of non-sustainable, cumbersome packaging. The Company believes it has an "answer" - The Answer® - which can introduce multi-serve aseptic liquids to foodservice the way Tetra Pak® and SIG Combibloc® introduced aseptic liquids to retail, in a package that is safe and conducive to repeated use.

With over 50% of every food dollar spent for consumption away from home, the target market for The Answer® is vast to be sure, though due to the current fragmented nature of foodservice packaging (as well as eventual opportunities in bulk retail) it is difficult to quantify a market potential for the Company and its technologies with any accuracy other than to say that there is a very significant upside once a large-format aseptic package with dispensing capability (i.e., The Answer®) gets traction.

It is not the Company's intention to compete with Tetra Pak® and SIG Combibloc®, but rather to take the aseptic packaging concept to a large multi-serve package, one that is beyond the reach of current Tetra Pak® and SIG Combibloc® filling platforms and whose end-use is impractical for a traditional aseptic carton.

we have the answer®

Once an aseptic carton is opened, the contents are exposed to air and must be refrigerated and consumed within a short period of time, or otherwise spoil. This is why aseptic cartons are predominantly single-serve retail packages

- one liter and smaller - and why aseptic foods and beverages have not made commensurate inroads in the foodservice market, where multiple servings require a bulk package that can easily and safely meter out product over an extended period of time.

IDC's dispensing tap, The Answer®, was created specifically to fill this foodservice void. Attached to a flexible bag or pouch, which is airtight when filled and collapses when product is dispensed, The Answer® takes the bag- in-box ("BIB") packaging format, primarily associated with highly-preserved, inexpensive wines, into a much broader range of liquid aseptic products. With The Answer®, aseptically processed beverages and liquid foods can be safely dispensed over time from a large- format package (practically speaking, three to twenty liters, and even larger if necessary) without relying on refrigeration and without compromising product integrity.

To IDC's knowledge, there is no other technology in the world besides The Answer® that can continuously dispense aseptic liquid food products at ambient temperatures while keeping the remaining product safe and secure for days and weeks, as if the package had never been opened. Any competitive solution would have to undergo the same rigorous, time-consuming testing and validation.

> *"Continuously dispense aseptic liquid food products at ambient temperatures while keeping the remaining product safe and secure for days and weeks"*

best-in-class manufacturing partners

While IDC continues to see itself as an intellectual property and R&D company, it has made the conscious decision to manufacture The Answer® rather than license it. The reasons for this are to maintain product integrity, guard manufacturing know-how (which we believe is at least as valuable as patent protection), and maximize margins by benefitting from economies of scale. The Company owns its tooling and assembly equipment, which are housed, maintained, and run at Hoffer Plastics ("Hoffer"), IDC's manufacturing partner. An award-winning third generation family business located in South Elgin, IL, Hoffer supplies molded and assembled parts to a number of Fortune 400 companies. Hoffer has proven to be an innovative and reliable partner for IDC, improving quality, reducing costs, making significant investments, and assisting in new product development. IDC and Hoffer have forged a tight working relationship, and Hoffer continues to treat IDC as a first tier customer.

With Hoffer, IDC has developed a fully automated assembly machine for The Answer® with state-of-the-art quality control procedures to detect microscopic flaws. The Company believes that the experience and technical know-how arising from the IDC-Hoffer relationship serves as an even greater protection of its intellectual property than its global patents. Creating the design for an aseptic tap is only the first step in what amounts to many years of validation and honing in on production precision.

Over the past three years, three delegations from Pepsi China have visited Hoffer with the idea of making The Answer® in China, only to come away convinced that the tap manufacture should stay in the U.S. Protecting brand equity, they agree, is paramount, far more important than saving a few pennies. In the event it becomes necessary for whatever reason to consider overseas production, the Company would expect to do so with Hoffer as its partner.

While Hoffer molds four of The Answer® tap's five parts, the most critical component—the silicone seal—is made elsewhere. Molding silicone is a highly specialized field, and The Answer® silicone seal is "the brains" of the tap, responsible for recreating a hermetic seal after each dispense.

The Company has recently partnered with Starlim- Sterner ("Starlim"), the world's premier precision molder of silicone, to manufacture the seal and make it as robust as possible. Based in Austria with manufacturing facilities in Ontario, Canada, Starlim manufactures silicone parts for medical devices with microscopic tolerances and brings an unprecedented level of technical expertise, as well as superior cost control. The Company believes that Starlim is a stellar addition to its manufacturing team.

The Company has also established an in-house testing, sampling, and product development arrangement with Aseptia, a North Carolina based company that specializes in cutting-edge aseptic processing and packaging technologies. The Company is now able to support customers with product development and sampling. Heretofore, such sampling had been cost prohibitive given the high production minimums of traditional manufacturing plants.

Hoffer
FAMILY INTEGRITY SERVICE TRUST

starlim sterner
silicone at its best

the answer® has been validated

The Answer® tap was first tested and successfully validated by two FDA processing authorities—Siliker in 1999 and National Food Labs in 2003.

In 2006, on the advice of key dairy customers, the Company retained the well-regarded Institute of Environmental Health ("IEH") to conduct even more stringent sterility tests. The tests demonstrated that The Answer® safely dispenses growth-promoting liquid under ambient conditions, at viscosities as high as that of a typical smoothie. Even when the inner nozzles were inoculated in unrealistic sabotage fashion on a daily basis with excessive levels of deadly bacteria, The Answer® provided a safe barrier for a minimum of 25 days of dispensing. Bags with no inoculation remained sterile indefinitely until the test was disbanded after 60 days.



Considering that most foodservice establishments typically go through a bag of product in a few days, or a week at most, the results were extremely successful and, commercially speaking, a home run. The results inspired IEH to write a scientific paper—"Sterility Testing of a Dispensing Valve for Aseptic Function in Food Service"—which it presented in 2007 to the International Association of Food Protection ("IAFP"). The leading body on food safety, IAFP is comprised of scientists, academics, and FDA



and USDA officials. The IEH paper was submitted for peer review, allowing leading scientists in the field to challenge its findings before any publication could take place. In 2008, the paper was published in the Journal of Food Protection ("JFP").

In 2011, Pepsi China also selected IEH to conduct microbiological tests on The Answer®, filling bags in China and shipping them by sea to IEH in Seattle. On a daily basis, spouts were inoculated with bacteria and product was dispensed for 30 days, which was the time standard PepsiCo was seeking. The test was a success— no bags were breached.

After many years of tests and validation, IDC has graduated from the gatekeepers and is now dealing solely with decision makers.

strategic alliance with sealed air corporation

In partnership with Sealed Air Corporation, IDC has completed development of an ultra-high-speed filler for BIB products—the IDC/Cryovac SpeedFlex™ BIB filler— and has begun to co-promote this new system throughout the world.

A global leader in food packaging and food safety, Sealed Air has a presence in 62 countries and serves customers in 175 countries, with over 25,000 employees and annual sales of $8 billion. A Fortune magazine survey conducted in February 2014 recognized Sealed Air as the "World's Most Admired" packaging company based on such categories as innovation, social responsibility, quality of products, and global competitiveness. This underscores why IDC selected Sealed Air to be its strategic partner. At recent stock analysts' meetings, while discussing its most important new innovations, Sealed Air's executive team gave the IDC/Cryovac SpeedFlex™ BIB filler top billing in its presentations. The filler was designed and manufactured for IDC and Sealed Air by Alfa Laval in Parma, Italy.

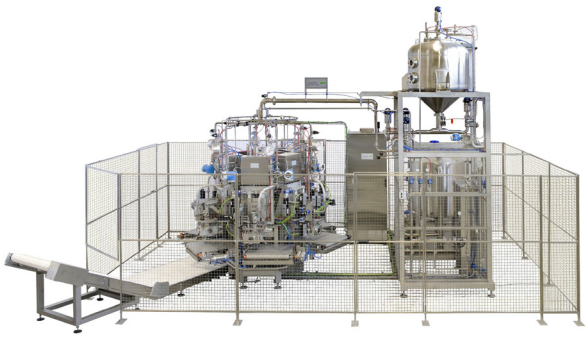
A Sealed-Air produced video showing the filler in operation can be seen on the Company's website (www.idcinnovation.com). While conventional BIB fillers fill bags at approximately 6 bags per minute for low-acid products and 10 bags per minute for high-acid products, the IDC/Cryovac SpeedFlex™ can fill a minimum of 30 bags per minute for low-acid products and 40 bags per minute for high-acid products—a quantum advancement.

The prototype filler in the USA has received FDA approval for low-acid food products and has been officially commissioned on meaningful volumes. A global giant in the food and beverage space (which we cannot name) has indicated a strong interest in moving two substantial pieces of business to the prototype and converting all bags to The Answer® (negotiations are underway). Sealed Air and IDC are in the process of marketing the filler and its respective packaging solutions to high-volume customers in Europe, Asia, and the Middle East.

The IDC/Cryovac SpeedFlex™ BIB filler creates a new and potentially explosive profit center for the Company, while also enhancing its ability to market The Answer™ with a total supply chain solution that is easier for the customer to digest and deploy. No longer is the Company offering merely a component part; working hand in hand

with its very credible strategic partner, it can now offer a turnkey and highly efficient packaging system.

Virtually every beverage or ingredient dispensed from a machine at a cafeteria, fast-food restaurant, stadium etc. is delivered from a bag or pouch below the counter or in the back of the



facility, and represents opportunity for the IDC/ Sealed Air alliance. IDC has a financial stake in every Sealed Air bag run over every IDC/Cryovac SpeedFlex™ BIB filler. As more fillers get placed, this can represent a potentially explosive revenue stream for the Company.

The Sealed Air alliance agreement does not preclude the Company from pursuing other packaging industry relationships. In areas where Sealed Air does not yet have a BIB presence, IDC has forged a number of useful working relationships.

The Company has made significant headway and momentum continues to build.

sales & marketing

During Q3, management continued to cultivate its on-going relationships with several major multinational companies while pursuing tangible opportunities in China, Korea, India, Pakistan, the Middle East, Mexico, and Brazil, as well as in Europe and the USA. The Company continues to focus much of its energy in the developing world, where lack of refrigeration, vast populations, greater acceptance of aseptic packaging, and an openness to adapt new technologies with greater speed to market make it particularly attractive. The Company has made significant headway and momentum continues to build. While real traction takes time due in large part to the slow-moving conservatism of the packaging industry, the flip side is that once the technology is established it is very difficult to unseat. Below are some of the active opportunities on the Company's plate, though this list is steadily expanding.



china

Much has been written in previous reports about the Company's multiyear global supply agreement with PepsiCo, and about delays resulting from PepsiCo China's joint venture with Tingyi. To read past history, please consult previous reports.

In October 2014, PepsiCo headquarters in Purchase, NY contacted IDC in order to renew the supply contract between the parties. While there have been delays related to the Tingyi integration in China, both PepsiCo headquarters and PepsiCo China have stated that The Answer® will "absolutely" be launched in early to mid-2015 and that there would be no reason to renew the

contract otherwise. PepsiCo reiterated that a 10 liter bag with The Answer® continues to be its most cost-effective way of delivering beverages anywhere in the world; that it intends to target six million restaurants throughout China; and that certain products catering to the Chinese palette have been specifically designed for the program. Management intends to visit China in early 2015 to bolster Li Xin's efforts to make this initiative a reality.

It is almost a truism that once PepsiCo China launches The Answer®, interest and demand will come from all regions within the PepsiCo global community. During the above mentioned contract renewal discussions, PepsiCo headquarters stated this as a virtual given and offered assistance to IDC in drumming up support in other regions and markets.

In January 2014, the Company hired former Sealed Air China President Li Xin to interact on a regular basis with various key people at PepsiCo/Tingyi—but Mr. Xin has also been finding other opportunities for IDC within China. In early Q3, IDC management held high-level meetings with The Coca-Cola Company China, Nestlé China, and Huiyuan (China's largest privately-owned juice company). A major multinational food and beverage company (which we cannot name) is moving toward a launch of tea and soy products with The Answer® in 2015.

The Company has established a strategic alliance with Doehler, a German based co-packer with a strong China presence. An approved co-packer of PepsiCo China and Nestlé China, Doehler has retro-engineered its existing BIB fillers to run The Answer® and has begun to conduct joint sales calls with Li Xin to promote The Answer® to its other customers throughout China. In addition to the co-packing opportunities, Doehler intends to launch its own brand of juices with The Answer®.

korea

As a result of PepsiCo China's enthusiasm for The Answer®, the Company was asked to meet with PepsiCo Korea and its bottler Lotte during its most recent visit to China in early Q3. Together PepsiCo Korea and Lotte market over 80 beverage brands. The meetings resulted in sample requests and considerable follow up, though it is the Company's sense that real activity in Korea will be set in motion by a launch by PepsiCo China, which remains the prime mover.

india

In May 2014, the Company visited New Delhi, India and met with the senior strategist and senior procurement officer of The Coca-Cola Company India. The meetings verified that India is a potentially explosive market for The Answer® due to the benefits it delivers: safety, cost, carbon footprint, and the opportunity to penetrate new distribution channels. The Company cannot comment further at this time on the details or tenor of these meetings or on any follow-up communications.

The Company is in discussions with the world's largest producer of mangoes, which is based in India and a large supplier to Coca-Cola.

The Company has joined the India Dairy Association, which it believes will provide entry to the largest dairy brands in the country. India is the world's largest dairy producer, followed by the USA, Germany, and Pakistan.

The Company expects to re-visit India in early 2015.

frieslandcampina

The Company is working closely with FrieslandCampina Germany, the market leader in dairy products in Germany, Austria, Switzerland, and Spain, to showcase IDC's technologies

and expand them globally throughout FrieslandCampina. The parent company, Royal FrieslandCampina (based in the Netherlands) is the world's fourth largest dairy company with revenues of $15 billion spread throughout Europe, Asia, and the Middle East. It is Royal FrieslandCampina's policy that once one region approves a product or technology, product or technology becomes available to all regions throughout the company.

obeikan industrial group

Over the past four years the Company has held periodic CEO-level discussions with the Obeikan Industrial Group, one of the largest aseptic carton and pouch purveyors in the Middle East and the regional strategic partner of SIG Combibloc and Elopak. In May, August, and November 2014, IDC management flew to Riyadh, London, and Dubai respectively to continue discussions. One of the largest privately held firms in the KSA, Obeikan has an established track record of deploying complete systems, from equipment to packaging, over a sales territory encompassing the Middle East and Africa (a population of roughly 1.4 billion). Obeikan and IDC have forged an informal partnership, in which Obeikan has agreed to lend its name and vast contacts to support and assist IDC in marketing its aseptic foodservice solution throughout the region. As IDC successfully penetrates the region, it expects to establish a more formal relationship with Obeikan with the aim of offering a total systems approach.

middle east

Following up on its May 2014 meeting with Al Rabie (the largest juice manufacturer in the Middle East), the parties met again in Dubai and Riyadh in November 2014. Al Rabie, who has been presenting mock-ups to the trade to gauge interest, informed IDC of its findings: that its discussions with various institutional customers in the region (notably large hotel chains) were "extremely promising" and requested the Company return to Saudi Arabia in January 2015 to chart the path forward. Al Rabie indicated its desire to be the first in the region to deploy The Answer® and its willingness to invest in infrastructure. It informed the Company that it had been looking for a means to penetrate the institutional market, and that IDC's The Answer® was, indeed, "the answer." Al Rabie's normal operating procedure is first to establish the solution in the KSA and then aggressively expand it throughout the rest of the Gulf and Egypt.

pakistan

Since their initial meeting at the Gulfood Show in Dubai (February 2014) the Company and Engro Foods have been in regular touch—sharing technical, supply chain, and cost information to determine if IDC's technolgies are commercially viable in Pakistan. Pakistan is the world's fourth largest dairy consumer; Engro Foods is Pakistan's preeminent dairy supplier with a 53% market share and is TetraPak's fifth largest customer worldwide. In November 2014, the Company met again in Dubai with Engro's CEO and the people involved in the project. The chief takeaways from the meetings were 1) IDC's pricing model is acceptable, 2) Engro is willing in principle to invest in infrastructure, 3) Engro is willing, in principle, to convert an existing product line to The Answer® and believes that The Answer® can help it expand other product lines into new distribution channels. At Engro Foods' invitation, the Company is planning to visit Karachi in January 2015 to chart the path forward, and combine that trip with a visit to Al Rabie and possibly other customers in the broader region.

mexico & latin america

In June 2014, management flew to Mexico City to meet with the CEO of Grupo Lala, the largest

dairy brand in Mexico and Latin America. Grupo Lala sees a number of interesting retail and foodservice applications for The Answer® and is in the throes of developing a plan to market entry. The Company is in the process of following up on this very promising opportunity.

brazil

The CEO of Ebba, the largest juice company in Brazil, has expressed interest in deploying a bulk aseptic package with The Answer® for both retail and foodservice. IDC has completed much of the cost analysis and logistical planning for a market test and is in the process of organizing a Brazil visit when time and schedules permit.

> *"The Company continues to focus much of its energy in the developing world, where lack of refrigeration, vast populations, greater acceptance of aseptic packaging, and an openness to adapt new technologies with greater speed to market make it particularly attractive."*

cold star

A leading distributor of bulk dairy dispensing systems throughout the United States and Canada, Cold Star continues to order The Answer® taps at a consistent annual rate of just under two-million units. Primary products include coffee whiteners, though Cold Star has made some inroads into ready-to-drink beverages using the IDC tap. The Answer® taps are in approximately 15,000 domestic locations, including truck stops, airports, schools, and other convenience outlets. The Cold Star model—placing bags into permanent cooling units and eliminating the cost of a printed box—is virtually identical to the model PepsiCo will be deploying in China. The Company is now promoting this proven low-cost concept around the world and is working with Cold Star on ways it can dramatically expand its distribution throughout the USA.

ambient dispensing of dairy products in the USA

Several of the largest dairy producers in the United States have told the Company that they are convinced by the testing conducted by IEH and believe The Answer® works as advertised. However, because the government food code does not allow for the dispensing of dairy products at ambient temperatures in the United States, these potential customers require something in writing from the US government stating that The Answer® is suitable for the ambient dispensing of dairy products. The largest and most identifiable opportunities are for coffee creamers (to replace open pitchers, which are vulnerable to tampering, mishandling, and spoilage) and dairy-based coffee beverages served over ice. A federal regulatory agency has approved in writing IDC's proposed test-protocols jointly developed by IDC and the agency, which represents a major step in clearing this final regulatory hurdle. Currently the Company is researching which dairy product is the most advantageous to test, based on a number of relevant factors. Assuming The Answer® passes the tests (a reasonable assumption given that the original IEH protocols were more stringent) the Company has been assured that a document amounting to a variance to the food code will be issued. While the Company has been methodically pursuing the arduous regulatory path in the US, opportunities outside the US, where regulations aren't nearly as rigid, continue

to proliferate. Conducting the tests is expensive, and the Company believes that the variance ultimately granted (while commercially viable) will still be encumbered with time limits based less on science than on bureaucratic prejudice. Nonetheless, the opportunity to convert US coffee shop condiment bars to a closed system with The Answer® is certainly worth pursuing.

The above are some, but by no means all, of the opportunities on the Company's plate. It is worth noting that all of the above referenced sales initiatives (as well as others) have been cultivated by essentially two people (and now three, with the addition of Li Xin).







Management believes that these basic expenses will increase only marginally even as the Company's growth significantly ramps up and reaches its global promise.

overhead & personnel

With the Hoffer and Sealed Air strategic alliances in full flower and the establishment of its Industry Advisory Board, the Company is effectively leveraging these and other relationships to keep its annual burn rate down to approximately $860,000, which includes the recent (1/1/14) hiring of Li Xin in China.

Management believes that these basic expenses will increase only marginally even as the Company's growth significantly ramps up and reaches its global promise. The discipline and efficiencies inherent in remaining an R&D company and forging strategic partnerships, the Company believes, is one of the strengths of its business model.

The Advisory Board, established in early 2013, consists of William Hickey (CEO of Sealed Air Corporation for 12 years before officially retiring in mid-2013), Markus Brettschneider (President & CEO of FrieslandCampina Germany), Dr. Aaron Brody Ph.D. (one of the world's foremost academic experts in food packaging), and most recently Li Xin (former President of Sealed Air China). It is proving to be a very active, collegial, and dynamic board, conferring with management on a regular basis both formally and informally and expanding the Company's international reach and scope of opportunity.

In addition to his advisory capacity, Li Xin also serves as Managing Director of IDC China. A Chinese national experienced in market entry strategy, sales and profit growth, food safety, and sustainability, Mr. Xin managed the Cryovac food packaging business units for the Asia region and built a large greenfield investment in Shanghai before his progressing to the Presidency of Sealed Air China. For thirteen years prior to his China assignment, Mr. Xin held marketing and sales management responsibilities for Sealed Air in the US and Canada. Besides overseeing the PepsiCo/Tingyi relationship, he is leveraging his connections to land other potential customers within China for IDC.

Tom Shaver, IDC President and COO, continues to make stellar contributions in all aspects of the business. A highly accomplished sales and

marketing executive in the packaging industry, Mr. Shaver spent seven very successful years at SIG Combibloc, heading up marketing for North and Central America. Mr. Shaver is a results-oriented, collaborative leader with proven capabilities in strategic planning, business development, brand management, key accounts, and negotiations.

Greg Abbott, IDC's founder and Chairman, continues to serve as CEO without salary. Prior to IDC, Mr. Abbott was CEO of Ithaca Industries, the largest private label- producer of underwear, pantyhose, and t-shirts in the US, which under his leadership tripled in size and was eventually sold in a successful leveraged buyout. Ithaca Industries was a case study for The Harvard Business School. Mr. Abbott was also one of the founding investors of EarthLink, the ISP, and played an instrumental role in securing major funding, which led directly to EarthLink's public offering.

The Company believes that this management team and Advisory Board alignment, coupled with the leveraging of its strategic partners, constitutes a strong, effective, streamlined approach going forward, one that will accomplish more while spending less.

the answer & industry trends

Food safety, food waste, contamination outbreaks, nutrition, the adverse health effects of preservatives, and sustainability are all recurring issues year after year that The Answer® addresses in one way or another.

A 2010 study conducted by Tetra Pak® cited the three most important deliverables that consumers want in the packaged foods they buy: 1) protection from spoilage before and after opening, 2) taste and product integrity, 3) safety barriers that eliminate the need for preservatives. While The Answer® is more of a food service solution, it speaks directly to these issues.

With refrigeration accounting for six percent of the world's carbon footprint, the energy savings afforded by The Answer® offers a clear-cut, Earth-friendly advantage. While it sounds logical that a bulk format uses less packaging material per fluid ounce of product and therefore expends less energy in the package's life cycle, the Company decided to test those assumptions by commissioning Allied Development, the leader in packaging sustainability studies, to conduct a comprehensive independent study. Comparing the carbon footprint of a BIB package with The Answer® to those of milk jugs, aseptic cartons, and plastic bottles, Allied Development measured in scrupulous detail energy usage and greenhouse gas (GHG) emissions through each stage of the supply chain (from material transport to resin production to package manufacture to filling to shipping). The study found that IDC's BIB package expended "significantly less energy and GHG" than the other formats tested. The study also verified that the IDC BIB package takes up significantly less landfill: 1/2 that of milk jugs, 1/3 that of aseptic cartons, and 1/6 that of plastic bottles. Based on this study, the Company believes that the package format it is promoting may be, arguably, the most sustainable package currently in the marketplace.

"The Company believes that the package format it is promoting may be, arguably, the most sustainable package currently in the marketplace."

intellectual property

The Answer® received initial United States patent protection in 2002, and additional US patent protection in 2004. Currently The Answer® has patent protection in Australia, Brazil, Canada, China, Eurasia (consisting of nine countries including Russia), Europe (United Kingdom, France, Italy, Germany, Spain, and the Netherlands), Hong Kong, Mexico, New Zealand, and South Africa. Patent applications are currently pending in India and Japan.

While the basic patent for The Answer® is effective until 2022, the Company is working to extend it through continued refinements. It cannot be overstated that the protection provided by manufacturing know-how gained through years of experience with Hoffer and Starlim is of even greater importance than the patents, especially for this kind of product where microscopic failure is not an option.



As stated earlier in this report, any competitive solution must endure equal years of testing and validation; even a direct knock-off must prove that it can maintain an aseptic result through stringent inoculated testing, and without the proper know-how there is no guarantee that even a direct knock-off can succeed at this. No matter how you slice it, there is always a long validation process and learning curve in the world of aseptic packaging. By the time The Answer® patent expires, it is the Company's expectation that the economies of scale achieved by volume are likely to provide an even more daunting barrier to entry to any aseptic dispensing competitors.

The Answer® became a registered trademark in 2010.

The strategic alliance of IDC-Sealed Air-Alfa Laval has applied for various patents on the IDC/Cryovac SpeedFlex™ BIB filler.

public relations

In early August 2013 the Company launched its newly designed website: www.idcinnocation.com. The new site, designed primarily for business to business, is easy to navigate and very scalable, and now features short videos about The Answer®, and the IDC/Cryovac SpeedFlex® BIB filler.

legal proceedings

The Company may be involved in litigation and other legal proceedings from time to time in the ordinary course of business.

forward looking statements

This Report contains forward-looking statements. Forward-looking statements reflect current expectations, as of the date of this Annual Report, and involve certain risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors.

No assurance can be given that any of the current or future introductions, discussions, negotiations, development projects or confidentiality agreements with potential customers, companies or partners will lead to additional sales, contracts, longer term partnerships or buyouts of the technology in the future. Additionally, the success of the Company may be subject to the availability of sufficient financing to meet its

future cash requirements and the uncertainty of future product development, regulatory approval and market acceptance of proposed products. Other risk factors such as loss of key personnel, lack of manufacturing capabilities, difficulty in establishing new intellectual property rights and preserving and enforcing existing intellectual property rights, as well as product obsolescence due to the development of competing technologies could negatively impact the future results of the Company.

results of operations

Nine Months Ended September 30, 2014 compared to Nine Months Ended September 30, 2013

Revenue: For the nine months ended September 30, 2014, the Company had net revenue from The Answer™ of $259,391 compared to the $312,473 of revenues generated for the nine months ended September 30, 2013. This decrease in revenues is due to the timing of shipments to customers.

Gross Profit: For the nine months ended September 30, 2014, the Company had a gross loss of ($35,969) compared to a gross loss of ($25,202) for the nine months ended September 30, 2013. Increased tooling maintenance expenses in the third quarter contributed to the gross loss.

Operating Expenses: – For the nine months ended September 30, 2014, the Company had total operating expenses of $1,201,609 representing a decrease of $260,096 or 17.8%, compared to the Company's total operating expenses of $1,461,705 for the nine months ended September 30, 2013. Operating expenses decreased as a result of a reduction of engineering expenses and depreciation expense.

Loss from Operations: For the nine months ended September 30, 2014, the Company had a loss from operations of $1,237,578 representing a decrease in loss from operations of $249,329 or 16.8% compared to the nine months ended September 30, 2013. This decrease was driven by reductions in operating and engineering fees contributed to the decrease in loss from operations.

Interest Expense: Interest expense for the nine months ended September 30, 2014 was $47,262 compared to $73,940 for the nine months ended September 30, 2013. This decrease was driven by the payoff of bridge loans in June 2013.

Net Loss: For the nine months ended September 30, 2014, the Company had a net loss of ($1,284,840) as compared to net income of $1,239,153 for the nine months ended September 30, 2013, representing an increase in net loss of $2,523,993 or 203.7% compared to the nine months ended September 30, 2013. The increase in net loss is driven by receipt in 2013 of a confidential settlement discussed in prior reports.

financial condition & liquidity

As reflected in the Company's financial statements, the Company has experienced continuing net losses and negative cash flows from operations through September 30, 2014. The Company's continuing existence is dependent upon its ability to obtain additional financing, to generate sufficient cash flows to meet its obligations on a timely basis and to achieve and maintain profitable operations. The Company is attempting to obtain additional contracts to bolster its cash flow. However, there can be no assurance that the Company will be successful in this regard.

During the first quarter of 2013 one individual investor purchased 238,095 shares for a purchase price of $100,000 ($.42 per share).

During the first half of 2013 the Board of Directors approved the terms of Mr. Abbott's cumulative $400,000 investments during 2012 as loans. Additionally, Mr. Abbott loaned the Company $300,000 during 2013. Promissory notes were issued for these loans at an interest rate of 6%.

Affiliates of Mr. Abbott also extended an aggregate of $150,000 in loans to the Company during 2013. Promissory notes were issued for these loans at an interest rate of 4% per annum.

During the third quarter of 2013 one individual investor purchased 150,000 shares for a purchase price of $63,000 ($.42 per share).

During the second quarter of 2014 affiliates of Mr. Abbott extended an aggregate of $300,000 in loans to the Company. Promissory notes were issued for these loans at an interest rate of 10% per annum.

During the third quarter of 2014 a shareholder extended a loan to the Company in the amount of $200,000. A promissory note was issued for this loan at a rate of 6% with a payback date no later than January 1, 2015.

Various loans dating back to 2006 were paid in part or in full after settlement proceeds discussed above were received in the second half of 2013. Details of these disbursements are outlined in Note 9 to the Company's Financial Statements.

The Company believes that it has sufficient capital and access to funding to continue operations through June 30, 2015. However, there is no assurance that the Company will raise sufficient capital or otherwise generate sufficient cash flows to enable the Company to continue as a going concern beyond such time. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.



international dispensing corporation

balance sheets

september 30, 2014 (unaudited) & december 31, 2013

assets

current assets:	*september 30, 2014*	*december 31, 2013*
cash	$ 77,821	$ 465,203
prepaid expenses	9,113	41,417
total current assets	86,934	506,620
property and equipment:		
office equipment	95,351	94,567
production equipment	3,323,768	3,267,518
	3,419,119	3,362,085
less accumulated depreciation	(2,948,067)	(2,839,970)
total property and equipment	471,052	522,115
total assets	*$ 557,986*	*$ 1,028,735*

liabilities & stockholders' (deficit) / equity

current liabilities:		
accounts payable	$ 203,024	$ 112,848
accrued expenses	100,099	76,006
note payable to stockholders	1,063,269	563,269
bank term loan	41,667	166,667
total current liabilities	1,408,059	918,790
long-term liabilities: bank term loan	27,777	27,777
total liabilities	1,435,836	946,567
stockholders' (deficit) / equity:		
common stock, $.001 par value; 100,000,000 shares authorized; 80,575,663 and 80,575,663 shares issued and outstanding as of September 30, 2014, and December 31, 2013, respectively	80,575	80,575
additional paid-in capital	36,267,537	35,942,715
accumulated deficit	(37,225,962)	(35,941,122)
total stockholders' (deficit) / equity	(877,850)	82,168
total liabilities and stockholders' (deficit) /equity	*$ 557,986*	*$ 1,028,735*

see accompanying notes.

international dispensing corporation

statements of operations (unaudited)

for the nine months ended september 30, 2014 & 2013

	2014	2013
revenues:	$ 259,391	$ 312,473
cost of goods sold:	295,359	337,675
gross loss:	(35,969)	(25,202)
operating expenses:		
engineering expenses	54,358	109,480
general & administrative expenses	35,482	45,229
operating expenses	783,776	959,977
selling expenses	219,896	209,442
depreciation expense	108,097	137,577
total operating expenses	1,201,609	1,461,705
loss from operations:	(1,237,578)	(1,486,907)
interest expense:	(47,262)	(73,940)
other income:	-	2,800,000
net (loss)/income:	$ (1,284,840)	$ 1,239,153
net (loss)/income per common share (basic & diluted)	$ (0.02)	$ 0.02
basic & diluted weighted average shares outstanding	80,575,663	80,440,885

see accompanying notes.

international dispensing corporation

statements of cash flows (unaudited)

for the nine months ended september 30, 2014 & 2013

	2014	2013
cash flows from operating activities:		
net (loss)/income	$ (1,284,840)	$ 1,239,152
non-cash items:		
depreciation	108,097	137,577
stock-based compensation	324,822	592,855
net changes in:		
accounts receivable	-	25,785
inventory	-	18,720
prepaid expenses	32,304	29,637
accounts payable	90,176	(196,329)
accrued expenses	24,093	(304,514)
net cash (used in)/provided by operating activities	(705,348)	1,542,884
cash flows from investing activities:		
additions to property and equipment	(57,034)	(224,211)
net cash used in investing activities	(57,034)	(224,211)
cash flows from financing activities:		
repayment of bank term loan	$ (125,000)	$ (125,000)
loans from shareholders	500,000	(436,731)
stock subscriptions payable	-	(400,000)
proceeds from issuance of common stock	-	163,000
net cash provided by/ (used in) financing activities	375,000	(798,731)
net (decrease)/ increase in cash	(387,382)	519,942
cash at beginning of period	465,203	156,752
cash at end of period	$ 77,821	$ 676,694
supplemental disclosure of cash flow information:		
cash paid for interest	$ 3,165	$ 378,453

see accompanying notes.

international dispensing corporation

statements of changes in stockholders' (deficit) / equity (unaudited)

for the nine months ended september 30, 2014 & the year ended december 31, 2013

	common shares	*common stock amount*	*additional paid-in capital*	*accumulated deficit*	*total stockholders' equity/ (deficit)*
balance at january 1, 2013	80,158,401	$ 80,158	$ 35,189,919	$ (36,536,158)	$ (1,266,081)
stock-based compensation expense	-	-	990,213	-	990,213
stock subscriptions available	-	-	(400,000)	-	(400,000)
additional shares issued	417,262	417	162,583	-	163,000
net income	-	-	-	595,036	595,036
balance at december 31, 2013	80,575,663	$ 80,575	$ 35,942,715	$ (35,941,122)	$ 82,168
stock-based compensation expense	-	-	324,822	-	324,822
net loss	-	-	-	(1,284,840)	(1,284,840)
balance at september 30, 2014	80,575,663	$ 80,575	$ 36,267,537	$ (37,225,962)	$ (877,850)

see accompanying notes.

1. the company & organization

International Dispensing Corporation ("IDC" or the "Company") was incorporated in the State of Delaware in October 1995. The Company designs and manufactures proprietary packaging and dispensing solutions for the flowable food, beverage, medical, pharmaceutical and chemical industries. IDC's business model offers companies proven market solutions that offer higher levels of product safety and product performance.

IDC's single focus is on the development of market solutions whose value may be optimized through a joint venture alliance, license agreement or sale of the technology. IDC's business plan is organized on five platforms.

I. Identify emerging packaging and dispensing market trends in the flowable foods, beverages, medical, pharmaceutical and chemical industries.

II. Design and incubate new packaging and dispensing technologies that delivers measurable improvements in product safety and product performance.

III. Demonstrate that the new technology can be mass marketed and mass produced.

IV. Deliver each new technology with the necessary patent and regulatory certifications completed.

V. Partner with leading flexible packaging companies in joint venture alliances, license agreements or sale of the technology to maximize shareholder value.

The Company continued to be subject to a number of on-going risks through September 30, 2014, which risks are continuing. For example, the Company is subject to risks related to the availability of sufficient financing to meet its future cash requirements and the uncertainty of future product development, regulatory approval, and market acceptance of existing and proposed products. Additionally, other

significant risk factors such as loss of key personnel, lack of manufacturing capabilities, difficulty in establishing new intellectual property rights and preserving and enforcing existing intellectual property rights, as well as product obsolescence due to the development of competing technologies could impact the future results of the Company.

The interim financial statements as of September 30, 2014 and for the nine months ended September 30, 2014 and 2013 are unaudited, but include all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of financial position and results of operations for those periods. The results of operations for the nine months ended September 30, 2014 are not necessarily indicative of the results that will be achieved for the entire year or any future interim period.

2. going concern

The Company's financial statements have been presented on the basis that it will continue as a going concern. The Company's activities have resulted in an accumulated deficit from inception to September 30, 2014, of $37,225,962. Losses are continuing as efforts to market the Company's products continue to develop. The Company's primary source of funds since inception has been from the sales of its common and preferred stock and to a lesser extent from the issuance of debt.

The Company's ability to continue as a going concern is dependent on its ability to obtain additional financing, to generate sufficient cash flows to meet its obligations on a timely basis, and ultimately to attain profitability.

As of September 30, 2014, the Company had a negative net working capital of $1,321,125. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

3. significant accounting policies

Cash

Cash consists of cash in banks.

Accounts Receivable

The Company's accounts receivable consist of amounts due from customers operating in the food and beverage industry throughout the United States. Collateral is generally not required. The Company does not have a history of significant uncollectible accounts. For the periods reported, the Company has performed a detailed review of the current status of the existing receivables and determined that an allowance for doubtful accounts is not necessary.

Inventory

The Company's inventory is carried at lower of cost, as determined by the first in, first out (FIFO) method, or market. The Company had no inventory as of September 30, 2014 and December 31, 2013.

Property and Equipment

Office equipment and productive equipment are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives, generally five years. Depreciation expense for the nine months ended September 30, 2014 and 2013 was $108,097 and $137,577, respectively.

Patents

Costs to develop patents are expensed when incurred.

Revenue Recognition

Revenue is recognized upon shipping of the product to the customer. Terms are FOB the Company's loading dock.

Income Taxes

The Company uses the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Management considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability for or discloses potential changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed income tax returns that require recognition or disclosure in the accompanying financial statements. Any interest and penalties related to income tax matters is recognized as a component of operating expense. The Company's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

Net Income/(Loss) per Share

Basic net income/(loss) per share is computed by dividing net income/(loss) by the weighted-average number of shares of common stock outstanding during the period. Diluted loss per share is determined using the weighted-average number of shares of common stock outstanding during the period adjusted for the dilutive effect of common stock equivalents related to preferred stock, outstanding stock options and deferred contingent common stock awards. Such incremental shares were antidilutive for the periods presented.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from such estimates.

Stock-Based Compensation

Compensation cost for all stock-based awards is measured at fair value on date of grant and recognized over the service period for awards expected to vest. Such value is recognized as expense over the service period, net of estimated forfeitures. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. Management considers many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of accounts receivable, accounts payable and accrued expenses, bank term loan, and notes payable to shareholders. In management's opinion, the carrying amounts of these financial instruments approximated their fair value at September 30, 2014 and December 31, 2013.

Business Segments

The Company has determined that its current business and operations consist of one business segment.

Advertising

The Company expenses advertising costs as incurred. Advertising expenses totaled $239 and $9,506 for the nine months ended September 30, 2014 and 2013, respectively.

4. private placements of stock

In the first quarter of 2013, one individual investor purchased 238,095 shares for a purchase price of $100,000 ($.42 per share).

In the third quarter of 2013, one individual investor purchased 150,000 shares for a purchase price of $63,000 ($.42 per share).

5. related party transactions

Gregory Abbott, Chairman and CEO, has continued to invest in the Company and in May 2012, made an equity investment of $200,000. In August 2012, affiliates of Mr. Abbott extended bridge loans to the Company totaling $300,000. Promissory notes were issued for these funds at an annual interest rate of 4%. The principal and interest on these notes were due on August 31, 2013 and were subsequently paid off as indicated in Note 9. In December 2012, Mr. Abbott made an equity investment of $200,000.

During the first half of 2013 the Board of Directors approved the terms of Mr. Abbott's cumulative $400,000 investments during 2012 as loans. Additionally, Mr. Abbott loaned the Company $300,000 during 2013. Promissory notes were issued for these loans at an interest rate of 6%. Affiliates of Mr. Abbott also extended an aggregate of $150,000 in loans to the Company during 2013. Promissory notes were issued for these loans at an interest rate of 4%.

Various loans dating back to 2006 were paid in part or in full after settlement proceeds discussed above were received. Details of these disbursements are outlined in Note 9.

During the second quarter of 2014, affiliates of Mr. Abbott extended an aggregate of $300,000 in loans to the Company. Promissory notes were issued for these loans at an interest rate of 10% per annum.

During the third quarter of 2014, a shareholder extended a loan to the Company in the amount of $200,000. A promissory note was issued for this loan at a rate of 6% with a payback date no later than January 1, 2015.

6. income taxes

The Company's federal statutory income tax rate is approximately 34%. The Company is also subject to applicable state income taxes. As a result of operating losses at September 30, 2014 and losses incurred since inception, and due to uncertainties surrounding the ability of the Company to realize the tax benefits associated with these losses, there is no provision or benefit for income taxes in the accompanying financial statements. As of September 30, 2014, the Company had a net operating loss carryforward of approximately $26 million, which expire in 2017 through 2034. The Company has established a full valuation allowance against its net deferred tax assets (which consists primarily of net operating losses carryforward) as the Company's ability, to realize such assets, is predicated upon the Company achieving profitability. In addition, the use of net operating loss carryforwards may be limited as a result of ownership changes resulting from stock issuances.

7. stock-based compensation

Stock-Based Compensation Expense

The fair values of stock options granted were estimated at the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model was originally developed for use in estimating the fair value of traded options, which have different characteristics from the Company's employee stock options. The model is also sensitive to changes in assumptions, which can materially affect the fair value estimate. The Company used the following assumptions for

determining the fair value of options granted under the Black-Scholes option- pricing model for the nine months ended September 30, 2014 and the year ended December 31, 2013:

	2014	*2013*
Risk-free interest rate	1.59% to 1.70%	0.88% to 1.37%
Expected volatility	103.3% to 104.5%	105% to 107.5%
Expected life (in years)	5 - 10	5 - 10
Expected dividend yield	0.00%	0.00%

Total compensation cost charged related to employee stock options amounted to $324,822 and $592,855 for the nine months ended September 30, 2014 and 2013, respectively. No compensation cost related to share-based payment arrangements was capitalized as part of the cost of any asset at September 30, 2014 and 2013.

The weighted average grant-date fair values of the options granted during the nine months ended September 30, 2014 and 2013 were $0.33 and $0.44, respectively. The weighted average inception to date exercise price of these options was $0.33.

8. stock options granted to non-employees

The Company accounts for its stock-based awards issued to non-employees in return for services using the fair value method. The fair value of the award is measured using the Black-Scholes option valuation model on the date that the services have been completed or on the performance commitment date, whichever is earlier (the “measurement date”). The fair value of the award is estimated on the date of grant and the measurement date and is recognized as an expense in the accompanying statements of operations over the vesting period.

9. stock options

The Company has two stock option plans (the “Plans”). The 1998 Stock Option Plan (the “Participant Plan”) provides for the granting of stock options to key employees, consultants or other persons (“Participants”). The objective of the Plans includes attracting and retaining the best personnel, providing for additional performance incentives and promoting the success of the Company by providing Participants the opportunity to acquire common stock.

The Plans provide for the granting of both options that will qualify as “incentive stock options” and options that are non-qualified stock options. The objectives of the second plan, the Director Option Plan (“the Director Plan”) is to attract and retain the best available personnel for service as outside directors of the Company, as well as to provide additional incentive to the outside directors of the Company to serve as directors and to encourage their continued service on the Board.

On June 18, 1999, the Board of Directors approved an increase in shares reserved for grant under the Participant Plan and Director Plan up to 850,000 and 450,000 shares, respectively. On September 11, 2000, the Board of Directors approved an increase in the number of shares reserved for grant under the Participant Plan to 2,500,000 and on December 5, 2001 the Board of Directors approved

an increase in the number of shares reserved for grant under the Participant Plan to 5,000,000.

The stockholders at the June 7, 2002 stockholders' meeting approved the increase in the Plan. Options expire on such date as the Board of Directors or the Committee may determine. The term of director stock options issued after January 1, 1998 and scheduled to expire before June 30, 2014 have been extended to expire on June 30, 2014.

In addition, 200,000 options scheduled to expire on June 30, 2009 have been extended to expire on June 30, 2014; 80,000 options scheduled to expire in 2012 and 100,000 options scheduled to expire in 2014 have been extended to expire on September 30, 2016. Director stock options granted to Gregory Abbott, George Kriste and William Hudson with an original expiration date prior to December 31, 2015 have been extended to June 30, 2018. Also, 50,000 options granted on August 12, 2014 have been extended to January 6, 2017 and a total of 281,250 warrants have been extended to May 20, 2017. These expiration dates extensions are reflected in the calculations below.

The following table summarizes stock option activity for the Company for the nine months ended September 30, 2014 and the year ended December 31, 2013:

	number of shares	*weighted average exercise price*	*intrinsic value*
oustanding at january 1, 2013:	8,999,501	$ 0.431	
granted	160,000	0.431	
exercised	(50,000)	0.263	
cancelled	(2,050,000)	0.583	
oustanding at december 31, 2013:	7,059,501	0.376	$ 593,920
granted	870,000	0.202	
exercised	-	0.000	
cancelled	(300,000)	0.950	
oustanding at september 30, 2013:	7,629,501	$ 0.334	$ 846,020

The following table summarizes information about stock options outstanding at September 30, 2014:

	options outstanding			*options exercisable*		
exercise price range	*number outstanding*	*weighted-average remaining life (years)*	*weighted-average excercise price*	*number outstanding*	*weighted-average remaining life (years)*	*weighted-average excercise price*
$0.20 - 0.30	4,750,000	6.03	$0.2235	4,071,667	6.28	$0.2269
0.312 - 0.58	2,407,834	3.54	0.4215	2,307,837	3.33	0.4235
0.60 - 1.00	231,667	4.35	0.7727	231,667	4.35	0.7727
$1.01 - 2.10	240,000	2.57	1.2042	240,000	2.57	1.2042
	7,629,501	5.08	$0.3335	6,851,171	5.09	$0.3459

As of September 30, 2014, warrants to purchase 4,776,962 shares of the Company's stock were outstanding at prices ranging from $0.20 to $0.80 per share. The weighted average warrant price as of September 30, 2014 was $0.37.

As of September 30, 2014, there was unrecognized compensation expense of $853,413 remaining to be amortized through 2020.

10. concentration of credit risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and trade receivables. The deposits at a financial institution are guaranteed by the Federal Deposit Insurance Company (FDIC) up to $250,000. At various times during the year, the Company had deposits in excess of the FDIC limit. The Company had accounts receivable balances of $0 as of September 30, 2014 and December 31, 2013.

Sales for the nine months ended September 30, 2014 and 2013 includes sales to one major customer, which accounts for most of the total sales of the Company for each of the respective years.

11. notes payable

Notes payable at September 30, 2014 consist of the following:

In August 2004, the Company entered into a $500,000 term loan and a $500,000 revolving credit facility. The term loan bears interest at a variable rate of prime plus one-half percent (.5%) per annum and matured on February 28, 2012. Beginning March 1, 2012, the Company will make monthly principal payments, in addition to the interest payments, on the term loan. The payments will continue for a period of 36 months, at which time the balance of the loan will be paid in full. The revolving credit line matured on February 28, 2012 and was not renewed. The term loan continues to be guaranteed by one shareholder/director of the Company. Total balance on outstanding Bank notes payable as of September 30, 2014 and December 31, 2013 were $69,444 and $194,444, respectively. The total principal payments that are required to be paid in 2014 and 2015 on outstanding notes payable as of September 30, 2014 are as follows:

2014	41,666
2015	27,778
total	$69,444

Throughout 2006, Mr. Abbott extended bridge loans to the Company totaling $500,000. Demand notes were issued for these funds at an interest rate of 10%.

In August 2012, affiliates of Mr. Abbott extended bridge loans to the Company totaling $300,000. Promissory notes were issued for these funds at an annual interest rate of 4%. The principal and interest on these notes was due on August 31, 2013. In October 2012, one shareholder extended a loan to the Company in the amount $200,000. A promissory note was issued for these funds at an interest rate of 4%. The principal and interest on this note was due on October 31, 2013.

During the first half of 2013 the Board of Directors approved the terms of Mr. Abbott's cumulative $400,000 investments during 2012 as loans. Additionally, Mr. Abbott loaned the Company $300,000 during 2013. Promissory notes were issued for these loans at an interest rate of 6%. Affiliates of Mr. Abbott also extended an aggregate of $150,000 in loans to the Company during 2013. Promissory notes were issued for these loans at an interest rate of 4%.

The following loans were paid in full as of September 30, 2013: Gregory Abbott 2006 bridge loans totaling $500,000; loans made by affiliates of Mr. Abbott in 2012 totaling $300,000; October 2012 shareholder loan of $200,000; and loans made by affiliates of Mr. Abbott in 2013 totaling $150,000. In addition, partial payment of Mr. Abbott's 2012 and 2013 loans was made, bringing the aggregate principal balance of such loans down to $563,269.

During the second quarter of 2014, affiliates of Mr. Abbott extended an aggregate of $300,000 in loans to the Company. Promissory notes were issued for these loans at an interest rate of 10% per annum.

During the third quarter of 2014, a shareholder extended a loan to the Company in the amount of $200,000. A promissory note was issued for this loan at a rate of 6% with a payback date no later than January 1, 2015.

Interest expense on the above notes payable and all other obligations of the Company was $47,262 and $73,940 for the nine months ended September 30, 2014 and 2013, respectively.

12. commitments & contingencies

From time to time, the Company is involved in legal proceedings arising in the ordinary course of business. We believe there is no litigation pending against the Company that could have a material adverse effect on the Company's financial position, results of operations or cash flows.

13. subsequent events

The Company has evaluated subsequent events for potential recognition and/or disclosure through November 24, 2014, the date the financial statements were available to be issued.

14. confidential settlement

The Company entered into a confidential settlement agreement on May 9, 2013 with regard to a claim brought by the Company against a service provider. The Company received $2.8 million in connection with the settlement. The terms of the settlement are confidential and no further details can be given.



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