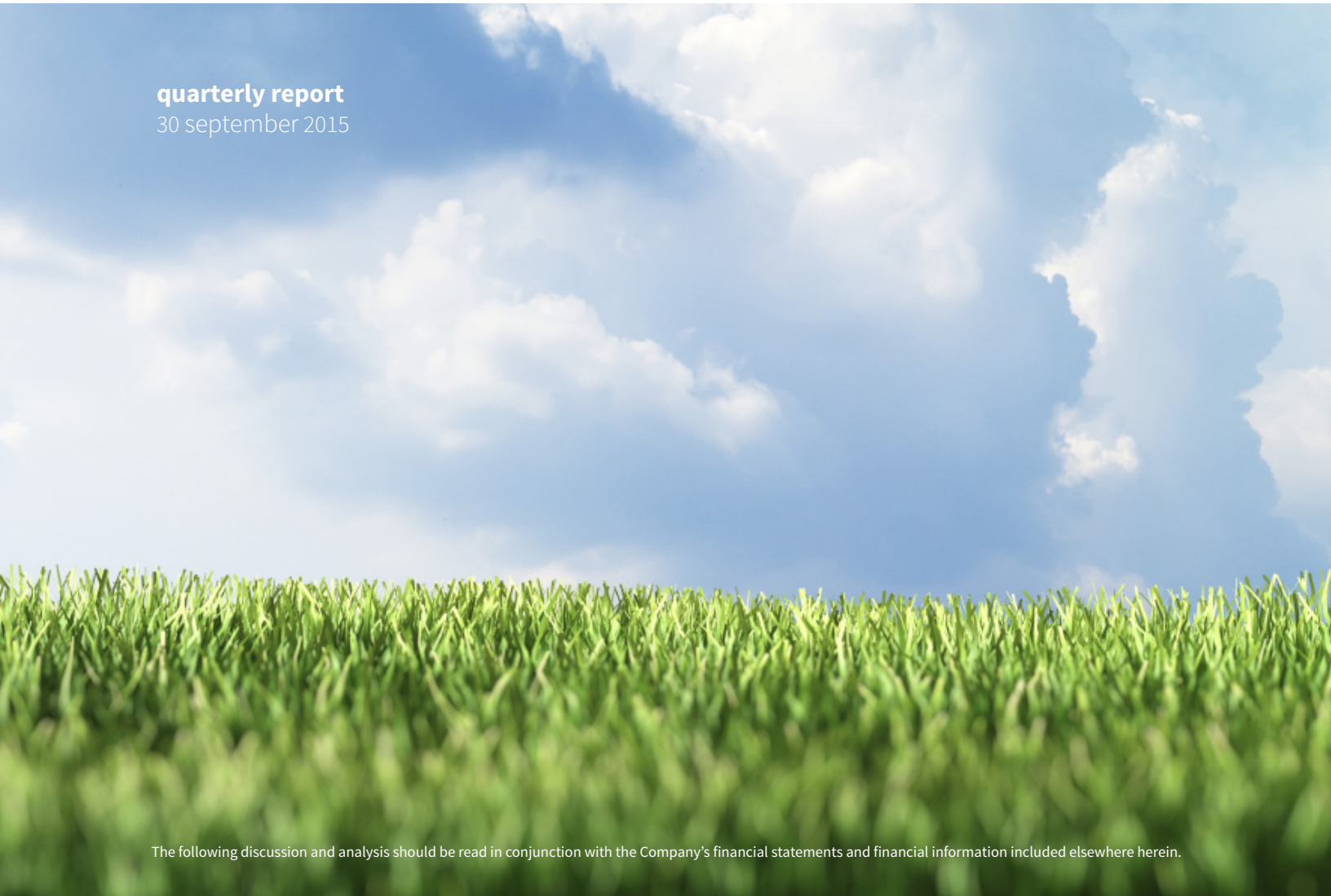
idc

protect the freshness™



quarterly report
30 september 2015

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

"Since our last quarterly report, the Döhler Group has launched an NFC aseptic juice product line using The Answer® to foodservice establishments throughout China. While steadily acquiring commercial accounts, Döhler is garnering interest from some very prominent Chinese national brands and is fully committed to our project. In addition to initiatives already percolating in Pakistan, Mexico, and the Middle East, we recently received high levels of interest from the leading soy and tea producer in Malaysia and from a leading producer of juice in the United States, both of whom are in the process of acquiring filling equipment in order to run The Answer®. With our experienced team covering all bases, we believe we have moved into a position to expedite sales by offering customers a total turnkey packaging solution that allows them the opportunity to target significant new lines of distribution."

-Greg Abbott
IDC 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 230 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.

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.

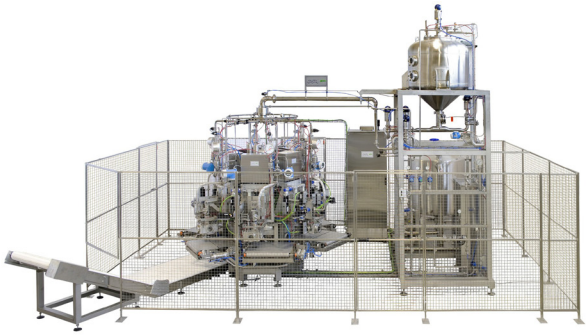
A Sealed-Air produced video showing the filler in operation can be seen on the Company's website (www.idcinnovation.com). While conventional BIB fillers fill bags at approximately 6 bags per minute for low-acid products and 10 bags per minute for high-acid products, the IDC/Cryovac SpeedFlex™ can fill 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 turn-key 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 is establishing an entirely new packaging format with leading global beverage brands.

sales & marketing

During Q3 2015, management continued to build momentum with several major multinational companies in the developing world, where lack of refrigeration combined with vast populations, acceptance of aseptic packaging, and an openness to adapt new technologies with greater speed to market make opportunities particularly attractive. The Company has driven the process forward in significant fashion, moving toward anticipated purchase orders in early 2016. Below are some of the active opportunities the Company is pursuing by country, though this list is steadily expanding.

usa

In October, management and Sealed Air Corporation representatives met with a major bag-in-box wine producer. The customer is reporting double-digit growth in its BIB packaged wine business and keeping up with the demand has been a major production challenge. The United States is the largest market in the world



for bag-in-box wines, estimated at over 125 million units sold per year. Globally, the bag-in-box wine industry sells over 500 million units per year and is estimated to grow to over one billion units by 2018. The customer showed immediate interest in the IDC/Cryovac SpeedFlex™ filler, as the production cost savings could be significant, and discussions are proceeding at a fast and focused pace.

A leading foodservice juice producer wants to enter the BIB space in a major way with The Answer® tap, for both juice and dairy products. This company already has aseptic infrastructure in place and only needs new filling equipment,

and discussions with machine companies are already underway. While the Company anticipates revenues from this initiative in second half of 2016, planning is expected to commence almost immediately.

china

The Döhler Group, a German-based co-packer with a strong China presence, has officially launched an NFC aseptic juice product line using The Answer® to foodservice establishments throughout China. Döhler has invested in BIB fillers and is aggressively marketing the system to institutional customers throughout China with immediate success, steadily acquiring commercial accounts; it has also garnered interest from some prominent national brands, which have the potential for significant volume and for creating a "stampede" effect in the marketplace.



Döhler is a major supplier to PepsiCo and Nestlé, both of whom are aware of this development.

The IDC/Döhler releationship has developed into a strategic alliance not only to co-market the system throughout China with an established manufacturing base, but to help IDC market the system throughout the world with sampling and technical support. Li Xin, IDC's managing director for China, has been cultivating this relationship at the highest level. He was a main speaker at the Food & Beverage Innovation Forum in Shanghai (early May), attended by all the major beverage brands in China, with Döhler sponsoring The Answer® aseptic system as its featured innovation. With 26 manufacturing facilities around the world, Döhler represents a significant global opportunity for IDC.

In addition to Döhler, a major multinational food and beverage company is moving toward a launch of tea, soy, and peanut milk products with The Answer® in China anticipated for mid to late 2016.

pakistan

In October 2015, Management met with the head of packaging development for Engro Foods during the Gulfood show in Dubai. Pakistan is the world's fourth largest dairy-consuming country; Engro Foods commands 53% of the dairy market in Pakistan and is Tetra Pak's fifth largest customer worldwide.

The meeting solidified the strategic focus of IDC's packaging technology, as both companies agreed that The Answer® can provide the key safety factor lacking today for Engro Foods to penetrate the loose-milk segment in Pakistan. Although Engro Foods sells billions of aseptic cartons of dairy products per year, approximately 85% of all consumed milk in Pakistan is via the loose-milk segment. Thus, the incremental volume opportunity for Engro Foods in this untapped segment is potentially huge. Preparations are being finalized for a loose-milk program market test in Pakistan for Q1 2016.

middle east & africa

Al Rabie, an exclusive Tetra Pak producer, continues to express excitement over being able to target institutional customers for the first time with a large-format aseptic package thanks to The Answer®. Samples of 10-liter NFC juice with The Answer® were produced by Döhler China and shipped to Al Rabie for market test evaluations. This internal market test is the final phase in Al Rabie's process to approve the platform for a market launch within the GCC. The Company anticipates the market test will be concluded by Q1 2016.

In October, Management met with Chi Ltd., a division of the TGI conglomerate, with diverse business interests in everything from food to healthcare and engineering products. Chi's has a major production facility in Nigeria and its product range covers fruit drinks, nectars, fruit juices and dairy items packaged in Tetra Pak. Chi currently has 19 Tetra Pak aseptic fillers and is Tetra Pak's largest customer in Sub Sahara Africa. Chi believes in innovation and is exploring possibilities for utilizing The Answer® throughout its entire distribution network for deployment in 2016.

The Company is working with a multinational which, along with its subsidiaries, employs roughly 60,000 people across 76 countries. This multinational, in partnership with several West African governments and some private entities, is in the process of finalizing a massive food & nutritional program in which the beverage component for the program will likely be aseptic BIBs equipped with The Answer®. IDC would be responsible for procuring the finished beverage products and coordinating ramp-up of its supply chain manufacturers, and the Company has provided the multinational quotations based on a variety of juice and dairy products. The program will begin as a pilot targeting a specific population group within a single African country, but the pilot as currently contemplated is significant enough to max out IDC's production capacity.

indonesia & the philippines

The Company is working with ITI Tropicals in Indonesia and the Philippines on a coconut crème project involving The Answer®, to supply not only the region but also for export. Bags have been packaged and are undergoing customer trials.

asia pacific

In October, Management met with the owners and CEOs of three large regional aseptic players: Malaysia Dairy Industries, Yeo Hiap Seng, and the Lamsoon Group. All three companies are active throughout South and East Asia in different products such as dairy, juice, soya, and tea products. Packaging used today is either Tetra Pak or Combibloc aseptic cartons. Both Malaysia Dairy Industries and Yeo Hiap Seng showed a strong interest and have showed samples and discussed this opportunity internally. Yeo Hiap Seng has requested additional samples as well as pricing, with a strong initial interest for their China food service business.

mexico & latin america

In October 2015, management attended Aseptipak in Mexico City, Mexico. Many representatives from some of the world's largest food and beverage multinational companies were present at the conference. Sealed Air Corporation sponsored the conference and, as the featured guest speaker, formally showcased the IDC/Cryovac SpeedFlex™ ultra-high-speed filler.

During the same trip, the Company and Sealed Air met with Grupo Lala in Mexico City. Grupo Lala is the largest dairy brand in Mexico and commands the majority of aseptic milk sold throughout Mexico. The parties are in continued dialogue regarding the possibility of placing an IDC/Cryovac SpeedFlex™ ultra-high-speed filler at Grupo Lala's plant, as well as the opportunities for deploying The Answer® in the region.

Additional meetings were held with other Mexican companies that are competing in the aseptic milk and juice categories. These include Jumex, Maulec, Pascual, and Cremeria Aguascalientes. Management has also initiated discussions with the Mexican Coca-Cola bottler FEMSA.

"Management continued to build momentum with several major multinational companies in the developing world, where lack of refrigeration, vast populations, acceptance of aseptic packaging, and an openness to adapt to new technologies with greater speed to market make opportunities particularly attractive."

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.







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 a minimum.

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.

Bo Thörn, IDC's Senior Advisor, has over 20 years' experience in the aseptic packaging industry. For 15 years he held senior executive and managing director positions with world leader Tetra Pak in North America, China, and South Asia. Today,

China is Tetra Pak's largest market by far. In addition, Mr. Thörn has held senior management positions with other world leading packaging companies in Europe and the Americas and had significant experience with his own business ventures as well.

Tom Shaver, IDC's President & CEO, is a highly accomplished sales and marketing executive in the packaging industry. Mr. Shaver spent seven very successful years at SIG Combibloc, managing marketing for North and Central America and two major global accounts. Mr. Shaver is a results-oriented, collaborative leader with proven capabilities in strategic planning, business development, brand management, key accounts, and negotiations.

Greg Abbott is IDC's founder and Chairman, and continues to serve 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.idcinnovation.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, 2015 compared to Nine Months Ended September 30, 2014

Revenue: For the nine months ended September 30, 2015, the Company had net revenues from The Answer® of $205,241 compared to the $259,391 of net revenues generated for the nine months ended September 30, 2014, a decrease of $54,150 or 20.9%. This decrease in net revenues is due to the timing of shipments to customers.

Gross Profit/(Loss): For the nine months ended September 30, 2015, the Company had a gross profit of $34,131 compared to a gross loss of ($35,969) for the nine months ended September 30, 2014, an increase of $70,100 or 194.9%. Decreased costs per unit and one-time tooling costs incurred in 2014 contributed to the increase in gross profit in the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014.

Operating Expenses: For the nine months ended September 30, 2015, the Company had total operating expenses of $1,055,421 representing a decrease of $146,188 or 12.2%, compared to the Company's total operating expenses of $1,201,609 for the nine months ended September 30, 2014. Decreases in travel and patent expenses were the primary driver of the decrease in operating expenses for the nine months ended September 30, 2015.

Loss from Operations: For the nine months ended September 30, 2015, the Company had a loss from operations of ($1,021,290) representing a decrease in loss from operations of $216,288 or 17.5% compared to the ($1,237,578) operating loss for the nine months ended September 30, 2014. This decrease in loss from operations was primarily driven by increased gross profit and decreased operating expenses as noted above.

Interest Expense: Interest expense for the nine months ended September 30, 2015 was $121,979 compared to $47,262 for the nine months ended September 30, 2014. The increase in interest expense is due primarily to the accounting for warrants issued in conjunction with loans obtained by the Company during 2014.

Other Income: Other income for the nine months ended September 30, 2015 was $5,074 compared to $0 for the nine months ended September 30, 2014. The increase in other income in driven by the accounting for the preferred stock purchase as discussed in Note 4 to the financial statements.

Net Loss: For the nine months ended September 30, 2015, the Company had a net loss of ($1,138,195) as compared to a net loss of ($1,284,840) for the nine months ended September 30, 2014, representing a decrease in net loss of $146,645 or 11.4% compared to the nine months ended September 30, 2014. The decrease in net loss was primarily driven by increases in gross profit and decreases in operating expenses as discussed above.

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, 2015. 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 sales of The Answer®. The Company is also seeking equity and/or debt financing. However, there can be no assurance that the Company will be successful in this regard.

During the first half of 2013 the Board of Directors approved the terms of Gregory 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%. A portion of these loans was repaid in 2014 resulting in a principle balance of $563,269.44.

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. These loans have an original due date of April 30, 2015 and are currently being renegotiated by the Company.



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% which was to be payable no later than January 1, 2015. A principal payment of $100,000 was paid in September 2015 resulting in a principal balance as of September 30, 2015 of $100,000.

During the fourth quarter of 2014 several individuals extended loans to the Company totaling $140,000. Promissory notes were issued for these loans at a rate of 6% with a maturity date on or before May 31, 2015. The loans are currently past due and are being renegotiated by the Company. In addition, one individual investor purchased 238,095 shares for a purchase price of $100,000 ($.42 per share).

During the third quarter of 2015 one individual purchased $1,500,000 of a new series of the Company's preferred stock. This is further discussed in Note 4 to the financial statements.

During the third quarter of 2015 the Company entered into agreements for bank lines of credit totaling $600,000. A line of credit in the amount of $350,000 is due on demand with an interest rate of prime plus 1%. The remaining $250,000 line of credit was issued at an interest rate of prime plus .75% with a term of 36 – 84 months.

The Company believes that it has sufficient capital and access to funding to continue operations through September 30, 2016. 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, 2015 (unaudited) and December 31, 2014

ASSETS

CURRENT ASSETS:	*September 30, 2015*	*December 31, 2014*
Cash	$ 1,117, 160	$ 15,434
Accounts Receivable trade	27,783	94,675
Prepaid expenses	5,727	33,333
Total current assets	1,150,670	143,442
PROPERTY AND EQUIPMENT:		
Office equipment	95,351	95,351
Production equipment	3,336,268	3,323,768
	3,431,619	3,419,119
Less accumulated depreciation	(3,079,538)	(2,982,455)
Total property and equipment	352,081	436,664
OTHER ASSETS:		
Discount - Beneficial Conversion Feature (BCF)	*604,144*	-
Discount - Warrants	*604,144*	-
Total other assets	*1,208,288*	-
TOTAL ASSETS	*$ 2,711,039*	*$ 580,106*

LIABILITIES & STOCKHOLDERS' (DEFICIT)/EQUITY

CURRENT LIABILITIES:	*September 30, 2015*	*December 31, 2014*
Accounts Payable	$ 331,491	$ 203,970
Accrued expenses	190,459	137,123
Note payable to stockholders	1,103,269	1,203,269
Bank term loan	-	27,778
Line of credit	206,187	
Other liabilities warrants	719,899	
Total liabilities	2,551,305	1,572,140
Convertible, redeemable preferred stock, $.001 par value; 1,700,000 shares authorized; 1,500,000 and 0 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	1,500,000	-
STOCKHOLDERS' DEFICIT:		
Common stock, $.001 par value; 125,000,000 shares authorized; 80,813,758 shares issued andoutstanding as of September 30, 2015 and December 31, 2014, respectively	80,813	80,813
Additional paid-in capital	37,612,081	36,570,268
Accumulated deficit	(39,033,160)	(37,643,115)
Total stockholders' deficit	(1,340,266)	(992,034)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	*$ 2,711,039*	*$ 580,106*

see accompanying notes.

International Dispensing Corporation

Statements of Operations (unaudited)

For the nine months ended September 30, 2015 and 2014

	2015	2014
REVENUES:	$ 205,241	$ 259,391
COST OF GOODS SOLD:	171,110	295,359
GROSS PROFIT/(LOSS):	34,131	35,969
OPERATING EXPENSES:		
Engineering expenses	32,495	54,358
General & administrative expenses	21,298	35,482
Operating expenses	757,891	783,776
Selling expenses	146,655	219,896
Depreciation expense	97,082	108,097
Total operating expenses	1,055,421	1,201,609
LOSS FROM OPERATIONS:	(1,021,290)	(1,237,578)
INTEREST EXPENSE:	(121,979)	(47,262)
OTHER INCOME:	5,074	-
NET LOSS:	(1,138,195)	(1,284,840)
Preferred stock dividends and discount accretion:	(251,850)	-
Net loss available to common stockholders:	$(1,390,045)	$(1,284,840)
NET LOSS PER COMMON SHARE (Basic and Diluted)	$ (0.02)	$ (0.01)
BASIC & DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	80,813,758	80,575,663

see accompanying notes.

International Dispensing Corporation

Statements of Cash Flows (unaudited)

For the nine months ended Septembert 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,138,195)	$ (1,284,840)
Non-cash items:		
Depreciation	97,083	108,097
Stock-based compensation	258,641	324,822
Warrants valuation	58,199	-
Change in fair value of warrant liability	(5,074)	-
Net changes in:		
Accounts receivable	66,892	-
Prepaid expenses	27,606	32,304
Accounts payable	127,521	90,176
Accrued expenses	43,144	24,093
Net cash used in operating activities	(464,183)	(705,348)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(12,500)	(57,034)
Net cash used in investing activities	(12,500)	(57,034)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from preferred stock issue	1,500,000	
Repayment of bank term loan	(27,778)	(125,000)
Proceeds from Bank line of credit	206,187	-
(Repayment)/Proceeds of notes from stockholders, net	(100,00)	500,000
Net cash provided by financing activities	1,578,409	375,000
NET INCREASE IN CASH	1,101,726	387,382
CASH AT BEGINNING OF PERIOD	15,434	465,203
CASH AT END OF PERIOD	$ 1,117,160	$ 77,821
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 633	$ 3,165

see accompanying notes.

International Dispensing Corporation

Statements of Changes in Stockholders' Equity / (Deficit)

For the nine months ended September 30, 2015 (unaudited) and the fiscal year ended December 31, 2014

	Common Shares	*Common Stock Amount*	*Additional Paid-In Capital*	*Accumulated Deficit*	*Total Stockholders' Equity/ (Deficit)*
BALANCE AT JANUARY 1, 2014	80,575,663	$ 80,575	$ 35,942,715	$ (35,941,122)	$ 82,168
Additional shares issued	238,095	238	99,762		100,000
Stock-Based Compensation			396,647		396,647
Stock subscriptions payable			131,144		131,144
2014 YTD net profit/ (loss)				(1,701,993)	(1,701,993)
BALANCE AT DECEMBER 31, 2014	80,813,758	$ 80,813	$ 36,570,268	$ (37,643,115)	$ (992,034)
Preferred stock BCF			724,973		724,973
Discount accretion on warrants and BCF				(241,658)	(241,658)
Stock-Based Compensation			258,641		258,641
Interest Expense Warrants			58,199		58,199
Preferred stock dividend				(10,192)	(10,192)
2015 YTD net loss				(1,138,195)	(1,138,195)
BALANCE AT SEPTEMBER 30, 2015	80,813,758	$ 80,813	$ 37,612,081	$ (39,033,160)	$ (1,340,266)

see accompanying notes.

International Dispensing Corporation

Notes to the Financial Statements
For the nine months ended September 30, 2015 and 2014

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, 2015, 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, 2015 and for the nine months ended September 30, 2015 and 2014 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, 2015 are not necessarily indicative of the results that will be achieved for the entire year or any future interim period.

The interim financial statements are condensed and should be read in conjunction with the Company's latest annual financial statements.

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, 2015, of $39,033,160. 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. As discussed under Financial Condition and Liquidity, several loans are now past due and are being renegotiated by the Company.

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, 2015, the Company had a negative net working capital of $681,361. 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.

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, 2015 and 2014 was $97,083 and $108,097, respectively.

Impairment of Long-Lived Assets

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net undiscounted cash flows that the asset is expected to generate. If such asset

is considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the asset, if any, exceeds its fair value determined using a discounted cash flow model.

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 stockholders. In management's opinion, the carrying amounts of these financial instruments approximated their fair value at September 30, 2015 and December

31, 2014.

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 $833 and $239 for the nine months ended September 30, 2015 and 2014, respectively.

4. private placements of stock

During the fourth quarter of 2014, one individual investor purchased 238,095 shares for a purchase price of $100,000 ($.42 per share).

During the third quarter of 2015 one individual purchased 1,500,000 shares of the Company's Series E Preferred Stock for a total purchase price of $1,500,000 ($1.00 per shares). These shares are redeemable after one year and can be converted to 5,000,000 share of the Company's Common Stock after one year. The purchase agreement allows for a 4% dividend payable either in case or in additional shares of Series E Preferred Stock. This agreement also allows for redemption of 5,000,000 warrants after a one year time period. The warrant redemption period expires after five years.

As the preferred stock contains a redeemable provision at the shareholder's option, the item is not included with permanent equity, but a component of mezzanine equity and included in the balance sheet as a single line item between liabilities and stockholders' deficit.

In addition, the convertible provision was evaluated to determine if it was subject to a beneficial conversion feature ("BCF"). A BCF was concluded since the effective conversion price was below the per share fair value of the underlying stock into which it is convertible at the issue date. As a result, the Company recognized an asset discount from the BCF and a related credit to additional paid-in capital in the amount of $724,973, which will be amortized as a deemed dividend over one year, the redeemable period.

In connection with the preferred stock issuance, the Company also issued warrants to purchase an additional 5,000,000 shares of common stock. The warrants are deemed a derivative liability and will be measured at fair value at each reporting period (see Fair Value Measurements Note). As a result, the Company recognized an asset discount for the warrants and a related credit to warrant liability in the original amount of $724,973. The discount will be amortized as a deemed dividend over one year, the redeemable period. The warrants will be measured at fair value at each reporting period with changes in fair value recorded in the income statement. Through September 30, 2015, a gain in the change in fair value of the warrants liability of $5,074 was recorded as miscellaneous income.

5. related party transactions

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%. A partial loan repayment was made to Mr. Abbott in 2013, bringing the aggregate principal balance of such loans down to $563,269. These loans are all due on demand.

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. A principal payment of $100,000 was paid in September 2015 resulting in a principal balance as of September 30, 2015 of $100,000.

Included in the accounts payable balance as of September 30, 2015 are payables owed to Mr. Abbott totaling $5,690.

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, 2015 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, 2015, the Company had a net operating loss carryforward of approximately $27.8 million, which expire in 2018 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, 2015 and for the fiscal year ended December 31, 2014.

	2015	*2014*
Risk-free interest rate	1.63%	1.52% to 1.70%
Expected volatility	102.3%	102.6% to 104.5%
Expected life (in years)	5	5 - 10
Expected dividend yield	0.00%	0.00%

Total compensation cost charged related to stock based compensation amounted to $258,641 and

$324,822 for the nine months ended September 30, 2015 and 2014, respectively. No compensation cost related to share-based payment arrangements was capitalized as part of the cost of any asset at September 30, 2015 and December 31, 2014.

The weighted average grant-date fair values of the options granted during the nine months ended September 30, 2015 was $0.27. The weighted average inception to date exercise price of these options was $0.33 during the nine months ended September 30, 2015.

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.

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 December 31, 2015 have been extended to expire on June 30, 2018.

In addition, 200,000 options scheduled to expire on June 30, 2009 have been extended to expire on June 30, 2018; 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, 2015 and the fiscal year ended December 31, 2014:

	Number Of Shares	*Weighted Average Exercise Price*	*Intrinsic Value*
OUTSTANDING AT JANUARY 1, 2014:	7,059,501	$ 0.376	
Granted	910,000	0.211	
Exercised	-	0.000	
Cancelled	(300,000)	0.950	
OUTSTANDING AT DECEMBER 31, 2014:	7,669,501	0.334	$ 797,270
Granted	100,000	0.350	
Exercised	-	0.000	
Cancelled	(19,999)	0.347	
OUTSTANDING AT SEPTEMBER 30, 2015:	7,749,502	$ 0.334	$ 363,300

The following table summarizes information about stock options outstanding at September 30, 2015:

	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	4,736,667	5.02	$0.2233	4,200,000	5.14	$0.2250
$0.312 - 0.58	2,541,168	2.71	0.4182	2,394,504	2.47	0.4218
$0.60 - 1.00	231,667	3.35	0.7727	231,667	3.35	0.7727
$1.01 - 2.10	240,000	1.57	1.2042	240,000	1.57	1.2042
	7,749,502	4.10	$0.3340	7,286,171	4.08	$0.3393

As of September 30, 2015, warrants to purchase 9,916,962 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, 2015 was $0.30.

As of September 30, 2015, there was unrecognized compensation expense of $398,323 remaining to be amortized through 2020 relating to all unvested stock awards.

No stock options were exercised as of September 30, 2015 or during 2014.

8. 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 $27,783 and $94,675 as of September 30, 2015 and December 31, 2014, respectively.

Sales for the nine months ended September 30, 2015 and for the fiscal year ended December 31, 2014 includes sales to one major customer, which accounts for most of the total sales of the Company for each of the respective years.

9. notes payable

Notes payable at September 30, 2015 consist of the following:

Gregory Abbott, Chairman, has continued to invest in the Company. 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%. Partial payment of Mr. Abbott's 2012 and 2013 loans was made, bringing the aggregate principal balance of such loans down to $563,269. These loans are all due on demand.

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. These loans were due on April 30, 2015 and are currently being renegotiated by the Company.

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. A principal payment of $100,000 was paid in September 2015 resulting in a principal balance as of September 30, 2015 of $100,000.

During the fourth quarter of 2014 several individuals extended loans to the Company totaling $140,000. Promissory notes were issued for these loans at a rate of 6% with a maturity date on or before May 31, 2015. These loans are in the process of being renegotiated by the Company.

During the third quarter of 2015 the Company entered into agreements for bank lines of credit totaling $600,000. A line of credit in the amount of $350,000 is due on demand with an interest rate of prime plus 1%. The remaining $250,000 line of credit was issued at an interest rate of prime plus .75% with a term of 36 – 84 months. Subject to the lines of credit, the Company has pledged certain cash amounts as collateral with balances totaling $600,000 as of September 30, 2015.

Interest expense on the above notes payable and all other obligations of the Company was $121,979 and $47,262 for the nine months ended September 30, 2015 and 2014, respectively.

In connection with the notes payable issued in 2014, the Company issued warrants to purchase 640,000 of the Company's common stock at per share exercise prices ranging from $.32 through $.43, expiring three to five years from date of issuance. The Company valued the warrants issued at inception of the loans using the Black-Scholes option pricing model, including the assumptions described in Note 7, and which resulted in total fair value of $189,343. This value was recognized as interest expense over the life of the loans. Interest expense recognized during 2014 associated with these warrants totaled $131,144. Interest expense of $58,199 was recognized as of September 30, 2015. No further interest expense from those warrants is expected to be recognized subsequent to September 30, 2015.

10. fair value measurements

Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurements and Disclosures, defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability assuming an orderly transaction in the most advantageous market at the measurement date. In addition, ASC Topic 820 establishes a hierarchical disclosure framework which prioritizes and ranks the level of observability of inputs used in measuring fair value. These tiers include:

- Level 1—Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2—Observable market-based inputs other than quoted prices in active markets for identical assets or liabilities.
- Level 3—Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In connection with the issuance of convertible, redeemable preferred stock during the third quarter of 2015, the Company issued warrants to purchase an additional 5,000,000 shares of common stock. In accordance with ASC Topic 815, Derivatives and Hedging, the warrants are deemed a derivative liability and are measured at fair value on a recurring basis using the Black Scholes option pricing model, which is considered a Level 2 fair value measurement. This consideration is determined given that inputs used in the calculation, including common stock market value, exercise price, risk free interest rate and volatility are considered observable inputs. The change in the fair value of the warrants of $5,074 for the period ended September 30, 2015, is reflected as miscellaneous income in the accompanying statements of operations.

The Company has no financial assets and liabilities measured at fair value on a non-recurring basis.



11. 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.

12. subsequent events

The Company has evaluated subsequent events for potential recognition and/or disclosure through December 9, 2015, the date the financial statements were available to be issued.



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