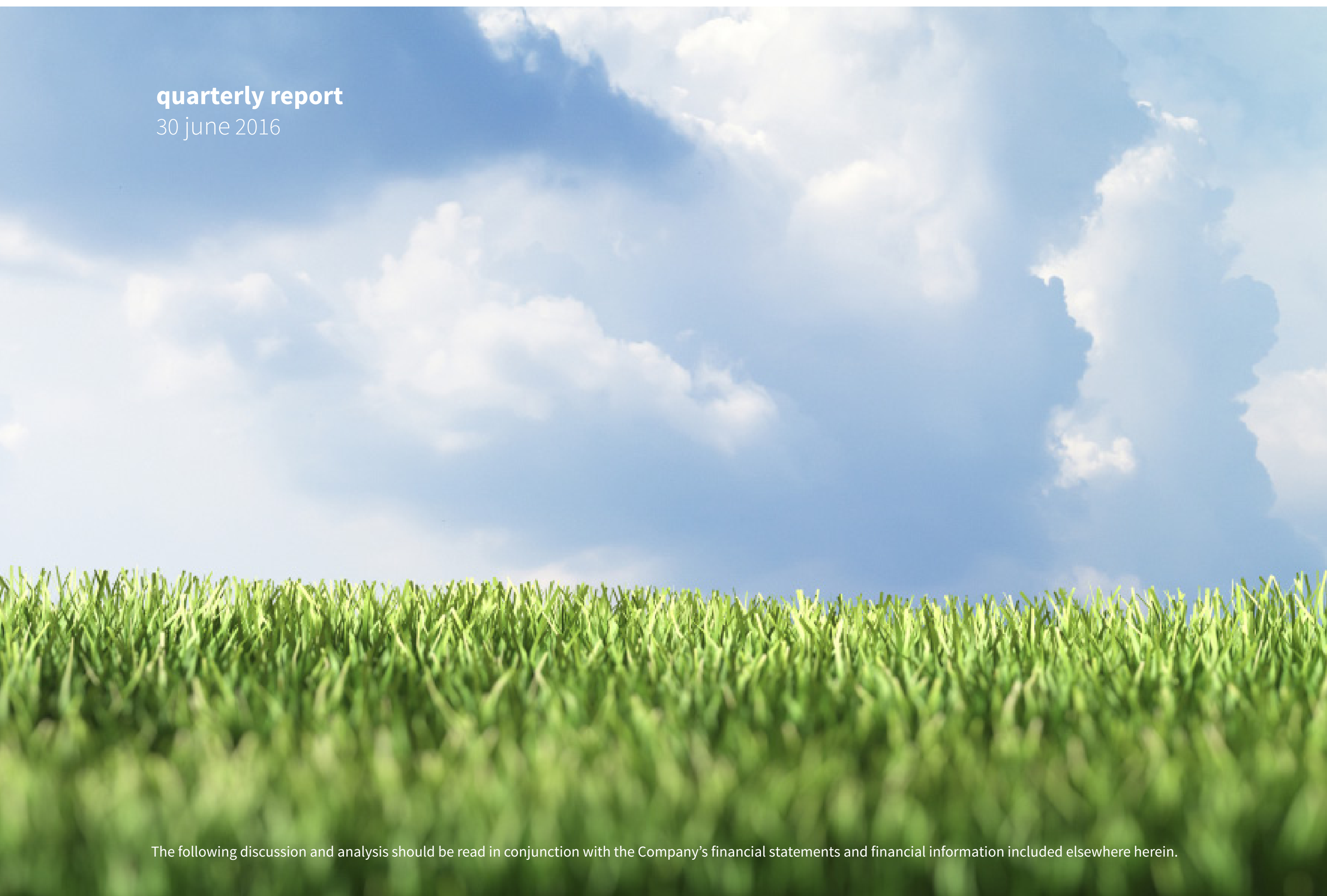
idc

protect the freshness™



quarterly report

30 june 2016

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 its 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

"IDC is closing in on real traction. As many as two dozen serious projects are accelerating around the world – in Mexico & Latin America, India, Pakistan, China, Europe, Africa, and the USA. Successful production trials have taken place, shelf-life tests passed, plant visits conducted, dairy samples requested – IDC is on the move. With minimal effect on costs, we have expanded and upgraded our sales network; senior ex-Tetra Pak and ex-Sealed Air executives with considerable gravitas now represent us globally. IDC has a formidable presence in New York, Paris, Dubai, and Shanghai."

-Greg Abbott
IDC founder & chairman

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

the global opportunity

vision

To develop and commercialize the world's preeminent aseptic tap for large-format food & beverage packaging and become "the Tetra Pak of Foodservice."

execution & historical company timeline

With aseptic packaging projected to be a $62 billion industry by 2020 (Infiniti Research), and with more people consuming food and beverages away from home, a large-format aseptic package for foodservice represents a significant global opportunity, but one that comes with an exceedingly high technical bar. Some major companies tried in vain to design an aseptic tap. Several industry experts with PhD's told us that creating a true aseptic tap defied the laws of physics and was "impossible". Against this backdrop of inertia, and with most packaging companies cutting or eliminating R&D, IDC enlisted some very talented freelance engineers to create a workable design. Ever since, IDC has been committed to perfecting its IP, protecting its trade secrets, and setting the highest possible standards – erecting formidable barriers to entry. Obtaining a U.S. patent in 2002 was just the beginning.

Each of the tap's five parts underwent several refinements and costly tooling modifications before becoming "The Answer®" – which we believe is the only aseptic tap in the world today. The actuator started as a spring and evolved into a snap-action "inverted umbrella" robust enough to withstand the high doses of radiation required in aseptic dairy packaging. The body underwent numerous adjustments to enhance flow and function. The silicone seal, the "brains" of the tap, went through three design and tooling iterations in the U.S. before Austrian-based Starlim-Sterner, the world's preeminent manufacturer of silicone medical parts, improved the strength and suppleness of the seal to robust new levels with a proprietary design and high-cavity tooling.

Design alone does not give you an aseptic tap. The manufacturing process must incorporate sophisticated quality control checks to detect microscopic flaws – the aseptic industry, especially the major global brands, will accept nothing less. In 2005, IDC convinced Hoffer Plastics, an injection molding and assembly company supplying several Fortune 500 companies, to be its manufacturer. IDC collaborated with Hoffer to design a state-of-the-art, fully automated assembly machine specifically for The Answer®, which resulted in cutting unit costs in half and obtaining in-plant regulatory approvals from NSF and FDA.

In 2006, IDC commissioned the Institute of Environmental Health (IEH), a leading FDA processing authority, to conduct rigorous sterility protocols. Inoculating spouts with abnormally high concentrations of harmful bacteria, creating a condition that can only exist with sabotage, IEH dispensed volatile growth-promoting liquids to determine if any of the bacteria would migrate into the bags. The process was repeated for 35 days, and just one breach of the 800 bags tested would doom the entire test to failure. Not only did The Answer® pass this stringent protocol, but the IEH test findings were published in the peer-reviewed Journal of Food Protection (2008).

Although it was premature, IDC worked in a parallel path on market development. While aseptic was widely accepted and the predominant form of processing overseas, North America remained its smallest market due to an established cold chain; there was no urgency for companies to adopt and plenty of skepticism. Even though The Answer® was ahead of its time and still in the process of being proven, IDC managed to garner strong interest from Hershey's, Coffeecol, and Steuben Foods – all of whom issued press releases, which bolstered IDC's industry exposure. Hershey's used The Answer® to dispense flavored milk at its Chocolate World theme park and at major trade shows; Coffeecol dispensed its dairy-based Juan Valdez coffee beverages from Coca-Cola trade show booths; Steuben Foods featured its own dairy-based coffee beverages at industry events. Lack of suitable manufacturing infrastructure ultimately killed these projects. Bag-in-box (BIB) filling speeds were dramatically slower than other packaging formats. No BIB filler in the U.S. could run The Answer® as a single fitment, and a double fitment bag was cost prohibitive. It was difficult even for Hershey's to get manufacturers to invest time and money in something unproven. Costco agreed to carry orange juice with The Answer® packed by Country Pure Foods, but when Hurricane Katrina wiped out the orange juice crop the project was cancelled. Despite these false starts, clear interest had been demonstrated. Cold Star became a customer in 2009 and has remained one ever since.

Meanwhile, awareness continued to build: In 2007, Jane Goodall endorsed The Answer® for its ability to deliver nutrition in bulk to every needy corner of the world without requiring refrigeration; in 2008, Allied Development released its independent Life Cycle Analysis scientifically proving that a BIB package with The Answer® consumed dramatically less energy, green-house gases, and landfill than other mainstream packaging formats, including aseptic cartons.

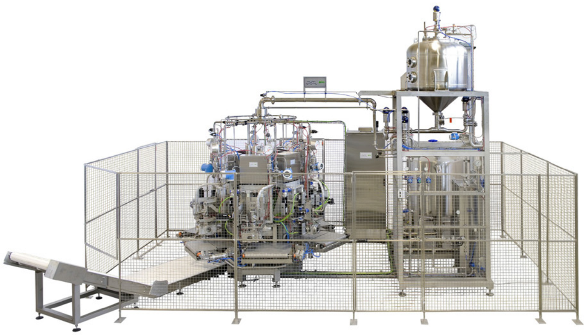
In 2009, PepsiCo launched a BIB package in the U.S. using its own tap and experienced widespread sterility breaches; every package had to be recalled. The debacle prompted PepsiCo to conduct a formal global search for an aseptic tap, which found that The Answer® was the world's only bona fide solution. PepsiCo sent several delegations to Hoffer; PepsiCo China ran successful sterility and market tests in numerous foodservice venues and with IDC's guidance procured a filling machine; and in 2012 PepsiCo International signed a global supply agreement with IDC. A mere two weeks later, PepsiCo China announced a sweeping joint venture with Taiwan-based Tingyi, who became its bottler, causing all new projects to be put on hold while the two companies underwent a government approval process followed by a long and complex integration. Despite doing no business, PepsiCo renewed its contract with IDC in early 2015, and in February 2016 PepsiCo began to resurrect the project (see sales & marketing).

Concurrently, IDC was busy addressing infrastructure issues and the handicap stemming from offering a component part rather than a total packaging system. In 2010, IDC partnered with Sealed Air and Alfa-Laval to co-develop the world's fastest BIB filling machine for high volume users. Recently, the Company worked out an arrangement with Elpo, a leading Italian equipment manufacturer, to offer more affordable fillers for business development, and signed bag supply agreements with Sealed Air and Goglio. These and other on-going initiatives have enabled IDC to leverage the sales forces of other companies and negotiate new revenue streams on the package and manufacturing components; but even more significantly, these alliances have bolstered IDC's go-to-market strategy. In a broader sense, IDC's relentless marketing efforts have transformed its industry. Virtually every BIB filling machine made today

is faster and capable of running The Answer® as a single fitment, and for older machines conversion kits to run The Answer® are now readily available. Any manufacturer who runs Tetra Pak or SIG Combibloc aseptic cartons is a potential candidate for IDC, and the Company is now in a position to offer them a turnkey solution: bag, filler, and of course The Answer®, which is what makes the large-format aseptic packaging possible.

With the forming of its Industry Advisory Board in 2013, and eyes opened by its exposure to China via PepsiCo, IDC made the decision to pivot its sales focus largely toward the developing world, which besides having less refrigeration and rapid growth is accustomed to aseptic products and more open to adapting new technology with greater speed to market.

Bolstering this global initiative, IDC's sales and business development personnel continues to evolve. Recently joining Bo Thörn and Li Xin on the IDC team are three senior ex-Tetra Pak executives with a combined 50+ years Tetra Pak experience. Between them, IDC now has high-level entree to the leading aseptic players in Europe, Russia, Turkey, Pakistan, India, the Middle East and Africa.   These individuals have agreed largely to success-based compensation, reflecting their belief in The Answer® and IDC's mission. IDC now has a presence in New York, Paris, Dubai and Shanghai.



The Company is establishing an entirely new packaging format with leading global beverage brands.

sales & marketing

IDC is commercial in the USA (Cold Star) and China (Döhler), thus proving the product and the concept. Döhler China in particular has caused the aseptic industry to take notice. The addition of just one major customer is likely to make IDC cash flow positive, and the Company is in serious discussions with at least two-dozen prospects that fit the bill, some of whom are progressing proactively toward commercialization. With the evolution of IDC's management team, the roster of prospects continues to expand, although the Company's top priority is to close the most imminent deals as quickly as possible. Once that process begins, the Company fully expects the sales cycle to quicken and global demand to accelerate. Below is a regional update of some of IDC's most immediate opportunities, though it is an ever evolving list.

china

Döhler continues to gain customers and sign up distributors, and has recently doubled its projections for 2016-2017, all of which is sparking interest elsewhere within China. Teaming up with IDC's Li Xin, Döhler is in advanced discussions with three of the largest juice and tea brands in China, as well as with PepsiCo and Coca-Cola. National adoption by any one of these companies is likely to result in several million units sold and to propel IDC to profitability.

In addition, through its dairy manufacturing partner Naarmann, IDC will be soon saturating the key Chinese and Mongolian dairy companies with filled bag samples and put the Chinese dairy industry in play.

mexico & latin america

FEMSA, Coca Cola's largest global bottler (based in Mexico City), continues to move with a sense of urgency toward commercialization. Besides visiting Hoffer Plastics and some Cold Star installations, FEMSA conducted a successful production run in late July and is planning to visit Döhler China. The business case involves multiple products (juice and dairy) in multiple countries. Based on discussions with FEMSA management and its board, the Company anticipates zeroing in on timing, volumes and commercial terms very shortly.

Jumex, FEMSA's largest juice competitor in Mexico, has put together a team to focus on IDC's technology, and the following Mexican companies are in the process of considering IDC systems proposals: Grupo LaLa (Mexico's largest dairy), Leche Pradel (dairy), and Pascual (water).

The Company continues to follow up with the AJE Group (Lima, Peru), the world's tenth largest soft drink company with a presence in 23 countries in Latin America, Africa, and Asia. AJE is taking delivery of an aseptic BIB filler and has asked IDC for technical and pricing information. IDC is also following up with Laive, Peru's leading aseptic dairy, which has requested and received go-to-market proposals.

IDC is in the process of arranging for juice boxes with The Answer® to be shipped to a customer in Guatemala. This customer has informed the Company that assuming the juice meets their taste profile, orders will follow shortly thereafter and that the program will encompass all of Central America.

pakistan

Engro Foods, Pakistan's leading packager of aseptic dairy products, has been working with IDC on a strategy to penetrate, and hopefully dominate, the "loose milk" segment. Although Engro Foods commands 53% of Pakistan's packaged milk and is Tetra Pak's fifth largest customer worldwide, over 80% of the milk consumed in Pakistan (and India) falls into the loose milk category: Raw unprocessed milk is poured or ladled into plastic bags; the consumer then takes the bags of contaminated milk home to boil the contents. The Answer® is uniquely suited to upgrade this practice by offering the safety and sanitation of a closed aseptic system. The next step toward a business relationship is for IDC to provide Engro Foods filled samples of milk, which are currently in the works at Naarmann (see Europe).

To solidify a local presence and bring considerable stature to its efforts, IDC has engaged the services of Pär Söderlund, former managing director of Tetra Pak Pakistan. Highly respected at Engro Foods and throughout Pakistan, and a director at Fauji foods, Mr. Söderlund possesses a deep and intimate knowledge of the Pakistan dairy industry and will be formulating IDC's strategy for the entire country, which ranks fourth in world dairy consumption. Based in Dubai, Mr. Söderlund can also help IDC expand into the Middle East, Africa and Eastern Europe (where he also served as Tetra Pak's managing director).

europe

The Company has entered into a strategic sales-and-marketing alliance with Privatmolkerei Naarmann GmbH, the leading ultra high temperature (UHT) dairy in Germany specializing in foodservice. A 113-year-old fourth-generation family business known for its high quality and exclusive focus on foodservice, Naarmann will supply samples of UHT dairy products in aseptic bag-in-box (BIB) equipped with IDC's The Answer® tap to potential IDC dairy customers throughout the world. IDC and Naarmann also will work in concert to promote Naarmann branded BIB dairy products with The Answer® across Europe and in key markets where Naarmann currently exports, thus making Naarmann IDC's first European customer.

Securing a top-tier UHT dairy willing to undergo the necessary machine conversions for IDC's specialized product, and to schedule multiple small sample runs, is a major step in the path to global dairy commercialization. Naarmann is in the process of producing BIB samples with The Answer®, in response to requests from potential IDC customers in Pakistan, Nigeria, China, Mongolia, Malaysia, Vietnam, Indonesia, France, Mexico, Peru and the USA.

To help with business development throughout Europe, Russia, and Turkey, the Company has engaged the services of an ex-Tetra Pak executive with 20 years industry experience and a wealth of high-level contacts. Even before the IDC relationship was formalized, this individual organized meetings with several key aseptic and foodservice players, all of whom expressed interest in pursuing opportunities with The Answer®.

africa

The Company has established a productive relationship with top management at Chi Ltd., Africa's largest aseptic beverage producer (and a division of the Dutch-owned TGI conglomerate). Recently, the Coca-Cola Company bought a 40% stake in Chi. Chi, which owns a large aseptic production facility in Nigeria, has expressed strong interest in running various products with The Answer® for foodservice, and also possibly expanding its reach into Southeast Asia. Like Engro Foods, Chi is awaiting dairy BIB samples from Naarmann.

india

Jain, the world's largest grower of mangoes and primary supplier to Coca Cola India, recently informed IDC that The Answer® passed its rigorous shelf-life tests. Jain has indicated that the project is for Coca-Cola India and that the potential numbers are massive.

middle east

Al Rabie, the largest juice brand in the Middle East, has shown samples to various foodservice clients and reported that the concept was well received. However, due to the fact that Al Rabie's plant for the project is very near the Yemen border, where considerable fighting and destruction has occurred, its overall business has suffered significant disruption, necessitating that the IDC project be delayed. While Al Rabie expressed optimism about the viability of the opportunity, IDC is in the process of targeting other important juice and dairy brands in the region that don't have the same geographic challenges. Pär Söderlund will help formulate IDC's Middle East expansion.

asia pacific

Two major aseptic players in Malaysia, MDI (Malaysia Dairy Industries) and Yeo Hiap Seng, continue to give serious consideration to the foodservice opportunity presented by The Answer® tap. IDC has responded to their requests for samples, dispensing units, filler proposals and pricing models. Both companies are active in Southeast Asia and South China with juice, dairy, soy, and tea products. IDC plans to visit them in Q4 with the expectation of garnering commitments. IDC has also reached out to leading aseptic companies in Indonesia and Vietnam and will be sending them dairy samples.

usa

IDC has received high levels of interest from three large U.S. co-packers: Döhler Americas, Whitlock and Gregory Packaging. All three indicated a willingness to invest in filling equipment, and each has articulated its own distinctive vision as to how it can deploy IDC's technology. Both juice and dairy are under consideration.

> *"Thanks to the Döhler partnership, IDC is now, for the first time, presenting real samples to the marketplace, which is considerably more impactful than talking about a concept. Samples have been sent to prospective customers all over the world."*

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

By making some key personnel decisions, IDC has managed to reduce overhead and enhance its global reach, thus lowering the threshold for profitability. With this increased operational leverage, the Company believes that the addition of just one new customer will result in IDC becoming cash flow positive. One success is likely to trigger many more successes; the interest generated from the Döhler launch is already evidence of this, and is likely to intensify as more customers deploy The Answer®. IDC believes that its fixed expenses will increase only marginally even as the Company grows and reaches its global promise.

Greg Abbott, IDC's founder, chairman, and CEO, continues to dedicate his full time to IDC without salary.

Bo Thörn, a 25-year industry veteran with 15 of those years spent in senior positions at Tetra Pak, has had a powerful impact on the Company's business development, management, and organization. As Managing Director of Tetra Pak China, Mr. Thörn was largely responsible for building that business into the world's largest market. He is based on the East Coast in close proximity to New York City and works closely with Mr. Abbott to oversee IDC's global business.

Prior to joining IDC, Li Xin managed the Cryovac food packaging business for the Asia region and built a large green-field investment in Shanghai before ascending to the Presidency of Sealed Air China. A Chinese national experienced in market entry, strategy, sales/profit growth, food safety, and sustainability, Mr. Xin is responsible for securing IDC's Döhler relationship, managing PepsiCo China, and developing other accounts within China. He is based in Shanghai.

Joining Bo Thörn and Li Xin on the IDC team are the two ex-Tetra Pak senior executives mentioned above, both of whom have agreed to be compensated primarily based on success. IDC believes that this core group -- is world-class, highly respected throughout the industry -- and will accelerate the pace of implementation in their respective regions.

Tom Shaver has transitioned from day-to-day involvement into an outside board of director's role. Since joining IDC in 2012, Mr. Shaver helped the Company shift focus toward the developing world, oversaw development of IDC's new website and marketing materials and had a transformative impact on IDC's business direction.

IDC's Industry Advisory Board continues to be active and helpful. Recently, Bill Hickey (former CEO of Sealed Air and current IDC Advisor) visited China and joined Li Xin for several successful meetings on IDC's behalf. The Company is looking to augment its Advisory Board with people who can add real and immediate value.

the answer & industry trends

Food safety, food waste, contamination outbreaks, nutrition, the adverse health effects of preservatives, and sustainability are all recurring issues that The Answer® squarely addresses. In its independent and comprehensive Life Cycle Analysis (2008), Allied Development concluded that the IDC solution expended "significantly less energy and greenhouse gases" and dramatically less landfill than other mainstream packaging formats. Based on these findings, IDC has reason to believe that its packaging solution may be, arguably, the most sustainable package in the marketplace.

> *"Based on these findings, IDC has reason to believe that its packaging solution may be, arguably, the most sustainable package in the marketplace."*

intellectual property & trade secrets

The Answer® received initial U.S. patent protection in 2002, and additional U.S. patent protection in 2004. Currently, The Answer® has patent protection in Australia, Brazil, Canada, China, Eurasia (consisting of nine countries including Russia), Europe (UK, France, Italy, Germany, Spain, and The Netherlands), Hong Kong, Mexico, New Zealand, South Africa, and Japan. A patent application is currently pending in India.

Strong as these global patents are, IDC believes that its trade secrets constitute at least as much IP protection. Years of refining its various components and the assembly process, and the stringent sterility tests it has successfully conducted, have set an extremely high technical bar that any other competitor must attain in order to lay claim to having an "aseptic tap". There is absolutely no guarantee – in fact, it is highly unlikely – that even a direct knock-off of The Answer® will produce the consistency demanded by the aseptic industry. Any knock-off will be regarded as a separate part, and no reputable food & beverage company will risk product recalls on a tap that hasn't been as thoroughly vetted as The Answer®. There are no short-cuts around the years of tooling, re-tooling, inoculated testing, regulatory approvals, and validation that are now in IDC's rear-view mirror. PepsiCo sent three delegations to Hoffer Plastics with the idea of manufacturing in China, only to abandon the notion when they saw the complexity of IDC's assembly process. IDC went through three U.S. silicone manufacturers before Austrian-based Starlim-Sterner designed the definitive seal, one that is proprietary to IDC.

The Company believes that between its patents and trade secrets, the barriers to entry are considerable. The technical standards IDC has set are high enough, and the process expensive enough, to discourage competition.

results of operations

Six Months Ended June 30, 2016 compared to Six Months Ended June 30, 2015

Revenue: For the six months ended June 30, 2016, the Company had net revenues from The Answer® of $257,040 compared to the $177,629 of net revenues generated for the six months ended June 30, 2015, an increase of $79,411 or 44.7%. This increase in net revenues is driven by increased unit sales.

Gross Profit/(Loss): For the six months ended June 30, 2016, the Company had a gross profit of $47,474 compared to a gross profit of $27,344 for the six months ended June 30, 2015, an increase of $20,130 or 73.6%. Increased unit-sales is the driver of the increased gross profit.

Operating Expenses: For the six months ended June 30, 2016, the Company had total operating expenses of $677,073 representing an increase of $26,019 or 4.0%, compared to the Company's total operating expenses of $651,054 for the six months ended June 30, 2015. Increases in international travel was the primary driver of the increase in operating expenses for the six months ended June 30, 2016.

Loss from Operations: For the six months ended June 30, 2016, the Company had a loss from operations of ($629,599) representing an increase in loss from operations of $5,889 or 1.0% compared to the ($623,710) operating loss for the six months ended June 30, 2015. This increase in loss from operations was driven by increased operating expenses and offset by increased unit sales as noted above.

Interest Expense: Interest expense for the six months ended June 30, 2016 was $45,575 compared to $100,930 for the six months ended June 30, 2015. The decrease in interest expense for 2016 is due primarily to the accounting for warrants issued in conjunction with loans obtained by the Company during 2014.

Other Income/Expense: Other income/expense for the six months ended June 30, 2016 was $236,646 compared to $0 for the six months ended June 30, 2015. The increase in other income/expense is due to a loss in the change in fair value of the warrant liability.

Net Loss: For the six months ended June 30, 2016, the Company had a net loss of ($911,820) as compared to a net loss of ($724,640) for the six months ended June 30, 2015, representing an increase in net loss of $187,180 or 25.8%. The increase in net loss is driven by an increase in operating and other expenses as discussed above.

Three Months Ended June 30, 2016 compared to Three Months Ended June 30, 2015

Revenue: For the three months ended June 30, 2016, the Company had net revenues from The Answer® of $154,872 compared to the $51,944 of net revenues generated for the three months ended June 30, 2015, an increase of $102,928 or 198.2%. This increase in net revenues is due to increased international shipments as well as the timing of shipments to established customers.

Gross Profit/(Loss): For the three months ended June 30, 2016, the Company had a gross profit of $31,367 compared to a gross profit of $10,017 for the three months ended June 30, 2015, an increase of $21,350 or 213.1%. Increased unit sales is the driver of the increased gross profit.

Operating Expenses: For the three months ended June 30, 2016, the Company had total operating expenses of $317,966 representing a decrease of $15,022 or 4.5%, compared to the Company's total operating expenses of $332,988 for the three months ended June 30, 2015. Decreases in non-cash compensation were the primary driver of the decrease in operating expenses.

Loss from Operations: For the three months ended June 30, 2016, the Company had a loss from operations of ($286,599) representing a decrease in loss from operations of $36,372 or 11.3% compared to the ($322,971) operating loss for the three months ended June 30, 2015. This decrease in loss from operations was primarily driven by increased gross profit as noted above.

Interest Expense: Interest expense for the three months ended June 30, 2016 was $20,410 compared to $40,009 for the three months ended June 30, 2015. The decrease in interest expense for 2016 is due primarily to the accounting for warrants issued in 2015 in conjunction with loans obtained by the Company during 2014.

Other Income/Expense: Other income/expense for the three months ended June 30, 2016 was $125,307 compared to $0 for the three months ended June 30, 2015. The increase in other income/expense is due to a loss in the change in fair value of the warrant liability.

Net Loss: For the three months ended June 30, 2016, the Company had a net loss of ($432,316) as compared to a net loss of ($362,980) for the three months ended June 30, 2015, representing an increase in net loss of $69,336 or 19.1%. The increase in net loss is driven by an increase in operating and other 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 June 30, 2016. 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 Greg 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 and 2016 resulting in a principle balance of $513,269.

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 and are due on demand.

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%. A principal payment of $100,000 was paid in September 2015 resulting in a principal balance as of June 30, 2016 of $100,000. The balance of this loan is due on demand.

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 were converted to stock by the Company in the fourth quarter of 2015. A total of 488,037 shares of common stock were issued to cover the principal and partial interest payments due on those loans. Interest payments were also made in cash to the loan holders.

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 lines of credit balance as of June 30, 2016, is $339,854.

During the fourth quarter of 2015 several individuals purchased a total of 733,332 shares of the Company's stock for an aggregate purchase price of $220,000 ($0.30 per share). As mentioned above, some loans extended to the company in Q4 2014 were converted to stock during this period.

During the first quarter of 2016 one individual investor purchased a total of 714,286 shares of the Company's common stock for a purchase price of $300,000 ($0.42 per share).

During the second quarter of 2016 on individual investor purchased a total of 238,095 shares of the Company's common stock for a purchase price of $100,000 ($0.42 per share).

The Company believes that it has sufficient capital and access to funding to continue operations through June 30, 2017. 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. 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
June 30, 2016 (unaudited) and December 31, 2016

ASSETS

		June 30 2016		December 31 2015
CURRENT ASSETS:				
Cash	$	27,573	$	485,432
Accounts receivable trade		108,027		102,345
Prepaid expenses		23,414		53,162
Total current assets		159,014		640,938
PROPERTY AND EQUIPMENT:				
Office equipment		95,351		95,351
Production equipment		3,336,268		3,336,268
		3,431,619		3,431,619
Less accumulated depreciation		(3,171,135)		(3,110,441)
Total property and equipment		260,484		321,178
Restricted cash		600,000		600,000
TOTAL ASSETS	$	1,019,498	$	1,562,116

LIABILITIES & STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:				
Accounts payable	$	58,571	$	127,695
Accrued expenses		193,844		170,633
Note payable to stockholders		913,269		963,269
Line of credit		339,854		587,721
Other liabilities warrants, at fair value		1,278,100		1,040,982
Total current liabilities		2,783,638		2,890,300
Convertible, redeemable preferred stock, $.001 par value; 1,700,000 shares authorized; 1,500,000 shares issued and outstanding as of June 30, 2016 and December 31, 2015		1,379,171		654,198
STOCKHOLDERS' DEFICIT:				
Common stock, $.001 par value; 125,000,000 shares authorized; 83,283,425 and 82,001,793 shares issued and outstanding as of June 30, 2016, and December 31, 2015, respectively		83,283		82,001
Additional paid-in capital		38,537,988		38,033,406
Accumulated deficit		(41,764,582)		(40,097,789)
Total stockholders' deficit		(3,143,311)		(1,982,382)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$	1,019,498	$	1,562,116

see accompanying notes.

International Dispensing Corporation

Statements of Operations (unaudited)

For the three and six months ended June 30, 2016 and 2015

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
REVENUES:	$ 154,872	$ 51,944	$ 257,040	$ 177,629
COST OF GOODS SOLD:	123,505	41,927	209,566	150,285
GROSS PROFIT:	31,367	10,017	47,474	27,344
OPERATING EXPENSES:				
Engineering expenses	59	3,850	28,368	28,645
General & administrative expenses	6,555	3,862	16,188	9,111
Operating expenses	239,129	277,107	478,890	479,568
Selling expenses	42,279	17,402	92,933	68,030
Depreciation	29,944	30,767	60,694	65,700
Total operating expenses	317,966	332,988	677,073	651,054
LOSS FROM OPERATIONS:	(286,599)	(322,971)	(629,599)	(623,710)
INTEREST EXPENSE:	(20,410)	(40,009)	(45,575)	(100,930)
INTEREST INCOME:	144	-	472	-
OTHER EXPENSE - loss on valuation of warrants:	(125,451)	-	(237,118)	-
NET LOSS:	(432,316)	(362,980)	(911,820)	(724,640)
Preferred stock dividends and discount accretion:	(377,487)	-	(754,973)	-
Net loss available to common stock holders:	$ (809,803)	$ (362,980)	$ (1,666,793)	$ (724,640)
NET LOSS PER COMMON SHARE BASIC & DILUTED:	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.01)
BASIC & DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING:	83,283,425	80,813,758	83,058,580	80,813,758

see accompanying notes.

International Dispensing Corporation

Statements of Cash Flows (unaudited)

For the six months ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (911,820)	$ (724,640)
Non-cash items:		
Depreciation	60,694	65,700
Stock-based compensation	95,864	177,491
Warrant valuation	-	58,199
Change in fair value of warrant liability	237,118	-
Net changes in:		
Accounts receivable	(5,682)	66,451
Prepaid expenses	29,748	20,416
Accounts payable	(69,124)	288,001
Accrued expenses	(6,790)	36,549
Net cash used in operating activities	(569,992)	(11,833)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	-	(12,500)
Net cash used in investing activities	-	(12,500)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of bank term loan, net	-	(27,778)
Proceeds/(repayment) of notes from stockholders, net	(50,000)	40,000
Repayment from bank line of credit, net	(247,867)	-
Proceeds from issuance of common stock	410,000	-
Net cash provided by financing activities	112,133	12,222
NET DECREASE IN CASH	(457,859)	(12,111)
CASH AT BEGINNING OF PERIOD	485,432	15,434
CASH AT END OF PERIOD	$ 27,573	$ 3,323
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 10,484	$ 633

see accompanying notes.

International Dispensing Corporation

Statements of Changes in Stockholders' Deficit

For the six months ended June 30, 2016 (unaudited)
and the year ended December 31, 2015

	Common Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
BALANCE AT JANUARY 1, 2015	80,813,758	$ 80,813	$ 36,570,266	$ (37,643,115)	$ (992,036)
Additional shares issued	1,188,035	1,188	355,225	-	356,413
Stock-based compensation expense			324,743	-	324,743
Preferred stock BCF			724,973		724,973
Discount accretion on warrants				(604,144)	(604,144)
Valuation of notes payable common stock warrants			58,199	-	58,199
Preferred stock dividend				(25,192)	(25,192)
Net loss	-	-	-	(1,825,338)	(1,825,338)
BALANCE AT DECEMBER 31, 2015	82,001,793	$ 82,001	$ 38,033,406	$ (40,097,789)	$ (1,982,382)
Additional shares issued	1,281,632	1,282	408,718	-	410,000
Stock-based compensation expense	-	-	95,864	-	95,864
Discount accretion on warrants				(724,973)	(724,973)
Preferred stock dividend				(30,000)	(30,000)
Net loss	-	-	-	(911,820)	(911,820)
BALANCE AT June 30, 2016	83,283,425	$ 83,283	$ 38,537,988	$ (41,764,582)	$ (3,143,311)

see accompanying notes.

International Dispensing Corporation

Notes to the Financial Statements (unaudited)
For the six months ended June 30, 2016 and 2015

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 June 30, 2016, 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 for the six months ended June 30, 2016 and 2015 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 three and six months ended June 30, 2016 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 June 30, 2016, of over $41 million. 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 June 30, 2016, the Company had a negative net working capital of $2,624,525. 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 and Restricted Cash

Cash and restricted cash (as discussed in Note 9) consists of cash in banks.

Accounts Receivable Trade

The Company's accounts receivable trade 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 six months ended June 30, 2016 and 2015 was $60,693 and $65,700, 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. The Company has established a full valuation allowance against its net deferred tax assets as the Company's ability to realize such assets is dependent upon the Company achieving profitability. Refer to Note 6, Income Taxes, for additional information.

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.

Net Loss per Share

Basic net loss per share is computed by dividing net 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, deferred contingent common stock awards and warrants. 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.

Reclassifications

Certain reclassifications to 2015 financial presentation have been made to conform to the 2016 presentation. These reclassifications did not affect previous reported net loss or total stockholders' deficit.

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 June 30, 2016 and 2015.

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 $0 for the six months ended June 30, 2016 and 2015.

4. private placements of stock

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 share). These shares are redeemable after one year and can be converted to 5,000,000 shares of the Company's Common Stock after one year. The purchase agreement allows for a 4% dividend payable either in cash or in additional shares of Series E Preferred Stock. This agreement also contained warrants to purchase 5,000,000 shares of the Company's common stock 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 sheets 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 a contra convertible, redeemable preferred stock discount for 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, and is netted against the convertible, redeemable preferred stock in the balance sheets.

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 Note 10). As a result, the Company recognized a contra convertible, redeemable preferred stock 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 vesting period, and is netted against the convertible, redeemable preferred stock in the balance sheets. The warrants will be measured at fair value at each reporting period with changes in fair value recorded in the statement of operations. Through June 30, 2016, a loss in the change in fair value of the warrants liability of $(237,118) was recorded as miscellaneous expense.

During the fourth quarter of 2015, several individuals purchased a total of 733,332 shares of the Company's stock for an aggregate purchase price of $220,000 ($0.30 per share). Additionally, 454,703 shares were issued to convert loans valued at $136,413 ($0.30 per share) to common stock. Due to the timing of necessary paperwork, $33,333 shares were issued in January 2016 and reflected as stock subscription payable as of December 31, 2015.

During the first quarter of 2016 one individual investor purchased a total of 714,286 shares of the Company's common stock for a purchase price of $300,000 ($0.42 per share).

During the second quarter of 2016 on individual investor purchased a total of 238,095 shares of the Company's common stock for a purchase price of $100,000 ($0.42 per share). Additionally, a total of 295,918 shares of common stock were issued in exchange for $500,000 options.

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%. Partial loan repayments were made to Mr. Abbott in 2013 and 2016, bringing the aggregate principal balance of such loans down to $513,269. These loans are all due on demand. Mr. Abbott was paid $70,000 towards the interest due on these loans during the fourth quarter of 2015.

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 are due on demand.

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 made in September 2015 resulting in a principal balance as of June 30, 2016 of $100,000. The balance of this loan is due on demand.

Included in the accounts payable balance as of June 30, 2016 are payables owed to Mr. Abbott totaling $11,655.

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 June 30, 2016 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 June 30, 2016, the Company had a net operating loss carryforward of approximately $27.2 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 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.

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 Greg 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.

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 estimates.

Total compensation cost charged related to stock based compensation amounted to $95,864 and $177,491 for the six months ended June 30, 2016 and 2015, respectively. For the three months ended June 30, 2016 and 2015, expense charged related to stock based compensation was $46,989 and $101,479, respectively. No compensation cost related to stock-based payment arrangements was capitalized as part of the cost of any asset at June 30, 2016 and December 31, 2015.

No options were granted for the six months ended June 30, 2016.

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.

The following table summarizes stock option activity for the Company for the six months ended June 30, 2016 and the year ended December 31, 2015:

	Number Of Shares	*Weighted Average Exercise Price*	*Intrinsic Value*
OUTSTANDING AT JANUARY 1, 2015:	7,669,501	$ 0.334	
Granted	140,000	0.334	
Exercised	-	0.000	
Cancelled	(19,999)	0.347	
OUTSTANDING AT DECEMBER 31, 2015:	7,789,502	0.334	$ 802,470
Granted	-	0.000	
Exercised	(500,000)	0.592	
Cancelled	(20,000)	2.100	
OUTSTANDING AT JUNE 30, 2016:	7,269,502	$ 0.338	$1,043,188

As of June 30, 2016, 500,000 options were exercised for a total of 295,918 shares of common stock.

The following table summarizes information about stock options outstanding at June 30, 2016:

	Options Outstanding			*Options Exercisable*		
Exercise Price Range	*Number Outstanding*	*Weighted-Average Remaining Life (Years)*	*Weighted-Average Exercise Price*	*Number Outstanding*	*Weighted-Average Remaining Life (Years)*	*Weighted-Average Exercise Price*
$0.20 - 0.30	4,236,667	4.28	$0.2261	4,170,000	4.30	$0.2265
$0.312 - 0.58	2,581,168	2.08	0.4168	2,467,837	1.84	0.4199
$0.60 - 1.00	231,667	2.60	0.7727	231,667	2.60	0.7727
$1.01 - 1.19	220,000	0.93	1.1227	220,000	0.93	1.1227
	7,269,502	3.35	$0.3383	7,089,504	3.29	$0.3395

As of June 30, 2016, warrants to purchase 4,916,962 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 June 30, 2016 was $0.38.

As of June 30, 2016, there was unrecognized compensation expense of $248,216 remaining to be amortized through 2020 relating to all unvested stock awards.

8. concentration of credit risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash, restricted 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 $108,027 and $102,345 as of June 30, 2016 and December 31, 2015, respectively.

Sales for the six months ended June 30, 2016 and the year ended December 31, 2015 includes sales to one major customer, which accounts for 96% of the total sales of the Company for each of the respective periods.

9. notes payable

Notes payable at June 30, 2016 consist of the following:

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 June 30, 2016. The balance of the lines of credit accounts is $339,854 as of June 30, 2016 and $587,721 as of December 31, 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 $237,118 for the six-month period ended June 30, 2016, as well as the $125,451 for the three months ended June 30, 2016, is reflected as miscellaneous expense in the accompanying statements of operations.

The Company has no financial assets and liabilities measured at fair value on a nonrecurring 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 September 16, 2016, the date the financial statements were available to be issued.

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